June 29, 1935

The Commercial West

WEEKLY

In This Issue

"The Proceedings"

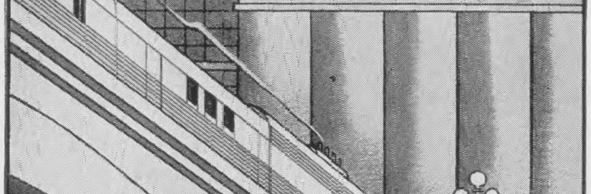
of the

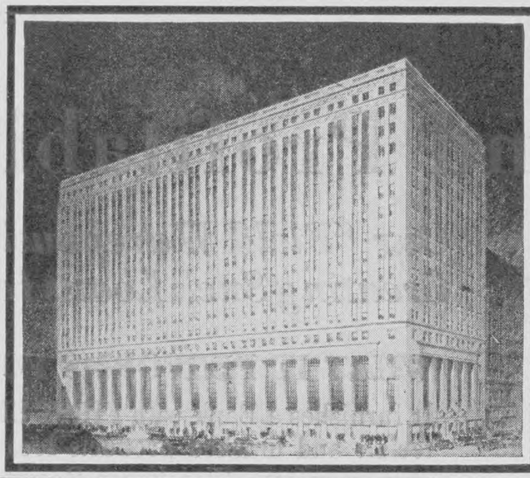
Minnesota Bankers'

46th Annual

Convention

MINNEAPOLIS





To the Bankers
OF THE NORTHWEST

Better attendance has been a highlight of annual Bankers Conventions held so far this year.

More important, the general feeling has prevailed that business is better.

Banks all over the country, and certainly in the Northwest, should soon begin to feel the benefits of business going forward.

Crop prospects are good. Prices on farm commodities are good.

There is definite activity along the entire front of business: in manufacturing, in the demand for raw materials, in carloadings, in retail buying and selling.

Bankers of the Northwest will find our facilities as a correspondent bank useful, valuable, practical—now, and in the future.

Department of Banks and Bankers

WM. N. JOHNSON
Vice President

D. E. CROWLEY
Representative

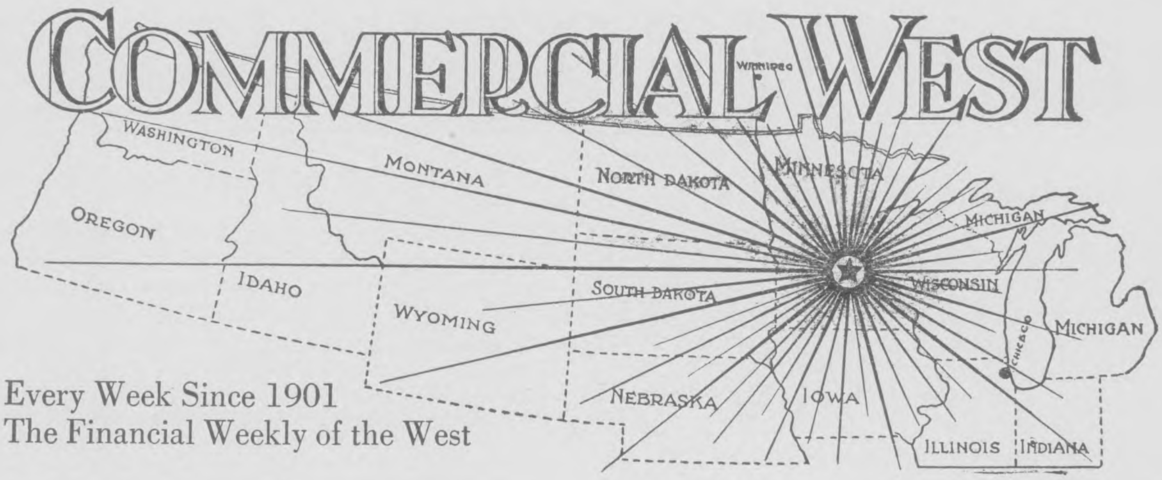
F. W. CONRAD
Assistant Cashier

L. GISVOLD
Representative

NORTHWESTERN NATIONAL BANK AND TRUST COMPANY

OF MINNEAPOLIS

Sixth Street . . . Seventh Street . . . and Marquette Avenue



Every Week Since 1901
The Financial Weekly of the West

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Features in This Issue

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: EDITORIAL :

Hindsight vs. Foresight

THE PRESENT corn situation is a renewed exemplification of the old adage that hindsight is better than foresight.

When the Department of Agriculture instituted its corn-hog reduction program it was welcomed in most quarters. There had been a big production of corn the previous year, hogs were selling at almost record low prices.

Then came the drouth, further reducing both, resulting in small spring and fall pig crops in 1934, a small pig crop last spring, a dearth of carry-over corn.

Prices responded but it will not be before the fall of 1936 that we will be able to produce anything like a normal pig crop.

The corn situation is serious and into this phase of reduction of production there enters import corn and the failure of Washington to foresee and provide for protection of United States corn growers, as it has also, it may be said, in the matter of the import of butter and other dairy products. Our tariff wall is not high enough, in the circumstances, to help the farmer fully in either instance.

As illustrations, Argentine alone since January 1 has exported to this country 13,569,000 bushels of corn, paying 25 cents a bushel duty and shipping charges, laying it down in Chicago and making a profit on it at 81½ cents a bushel, about 5 cents under the present Chicago price for our yellow domestic-grown No. 2 corn.

Any time the wholesale price of butter gets around 26 cents a pound in New York Denmark can and does sell its butter here in competition with this great butter-producing Northwest.

Hindsight would have come in mighty handy if it had been employed when foresight was reducing our production of corn, hogs and butter—a hindsight that would have raised our import barriers to the point where our farmers might have realized to the full the gain in prices the curtailment program and the drouth brought about.

When Man's Planning is Futile

THERE ARE CERTAIN FUNDAMENTAL laws of nature and economic procedure with which experience has shown us it is not practical to interfere or try to regulate by man-made processes.

Chief of these is supply and demand irrespective of whether the product in question is produced largely by nature, such as farm crops, or is manufactured, such as merchandise.

Of the two it would seem that merchandise, including such allied lines as products entering into construction, etc., would be most easily controlled, yet we have the failure of NRA as evidence that even in these things a planned economy will not succeed. Termination of the destructive drouth in a sudden and great downpour of rain this spring and summer, witnesses how absurd it is to try to plan things for Mother Nature.

We have been consistent in this position and, of course, have many substantial business leaders, students of economy and great industrial institutions in full sympathy with our position.

Now comes the Guaranty Trust Co. of New York City, in its June 24 review, saying:

> "The passing of the NRA as an instrumentality by means of which the realm of private business could be invaded by the government for the purpose of experimental control adds one more instance to the long list of planned-economy failures throughout the world."

Down from the time of the Greek philosophers we have the experience of the wreckage of planned economy. It is difficult to understand why we still persist in futile beating against the solid wall of fundamentals.

England's Strike Laws

THE TERRORIST STRIKE in this country, fanned by communistic fires, is a growing menace to our economic welfare. The Wagner bill, with its NRA section 7A fagot will add to the conflagration. All our laws and those proposed seem aimed at widening of the breach between labor and capital. They are too controversial, leave too many loopholes for disputes.

In respect to strikes and the institution of strikes we might well pattern more after the British law which lays down hard and fast rules that both sides must observe. Labor is well protected in its rights, yet cannot precipitate easily those disastrous strikes common to this country in which, after all, the public is the chief loser and the greatest sufferer. Sympathetic and general strikes are illegal, unions cannot deprive men of their membership if they refuse to strike.

These would appear to be wise laws and would remove from the communist his chief weapon in fomenting such great upheavals as have occurred in this country and are promised under the provisions of the Wagner bill.

A Further Block to Recovery

PRESIDENT ROOSEVELT'S "wider redistribution of wealth" program, coming out of a clear sky last week, marked "must" for Congress at this session, has served as a further block to business recovery, no matter in what light it may be looked upon by the varying components of the economic and social structures of the United States. Here are the five planks of the program:

1. An inheritance and gift tax (no specified amount) on "all very large amounts received by any one legatee," the proceeds to be used to reduce the national debt.
2. "A definite increase in the taxes now levied upon very great individual net incomes"—especially those over $1,000,000.
3. A graduated income tax on corporations, ranging from 10¾ to 16¾ per cent, according to size of the corporations, and replacing the presnt uniform levy of 13¾ on all companies.
4. Ultimate elimination of all "unnecessary" holding companies through taxation.
5. A constitutional amendment to permit the taxation of

now tax-exempt federal, state and municipal government securities.

Of the five the one most seriously affecting business and giving it concern is that proposing to increase the income tax on the larger corporations. Here we have an already heavily overburdened business structure that can scarcely be expected to put much spirit behind expansion when faced with further tax penalty if it does show progress.

We have got to raise more taxes but let's not especially penalize the very ones that can pull us over the economic hill.

TWENTY-FIVE YEARS AGO

—from the Commercial West, July 2, 1910

Interstate Securities Co. of Minneapolis has voted an increase of $100,000 in its capital stock. Officers are Joseph U. Barnes, president; Richard C. Thompson, vice president; Eugene B. Barnes, secretary and treasurer.

Fred Sanberg has succeeded J. E. Roman as cashier of the Stannard State Bank at Taylors Falls.

The first State Bank at Dayton, Minn., will open for business about July 1 with Hugh R. Ruttell as cashier.

The Merchants & Savings Bank has been organized at Madison, Wis., with $50,000 capital. A. M. Stondall is president; M. C. Hagan, cashier.

The State Bank and the Farmers State at Barlow, N. D., have consolidated with John A. Dolle continuing as cashier.

R. S. Vasey, E. H. Wood and others have organized the Pierre Banking & Trust Co. with $50,000 capital at Pierre, S. D.

Security Savings Bank at Rapid City, S. D., is being reorganized. A. O. Figge has resigned as cashier and has been succeeded by M. J. Nicholson.

First National, Miles City, Mont., has let a contract for a new building to cost about $52,000.

The Commercial West editor, consistent then as now, takes a man's sized wallop at fake investment offerings. He says: "One of the glaring sign posts on the road to investment ruin is the advertising promising large returns from small investments. Always take the skeptical viewpoint toward such announcements."

They held their state conventions late in the summer 25 years ago. In 1910 North Dakota was to meet at Valley City, July 8-9; Wisconsin at La Crosse, August 17-18, and Montana at Bozeman, August 30-31.

James J. Hill, speaking before the National Millers Association convention in Minneapolis, cited as serious the problem of congested terminal facilities and recommended large expansion to meet the great growth of the Northwest.

The Canadian government proposes to establish union stockyards at St. Boniface, a suburb of Winnipeg.

Pacific Light & Power Co., Portland, Ore., is being organized with outstanding capital of $7,500,000.

Railroads entering Spokane are planning to spend $7,000,000 on development of terminals and a union station.

W. P. Davidson of St. Paul has purchased 800,000 acres of agricultural and timber lands in Oregon which he is placing on the market at $8 an acre for grazing land up to $55 to $200 an acre for good agricultural land.

Drouth conditions in North Dakota and Minnesota are becoming critical and spring wheat prices are advancing 6 to 7 cents a bushel in the Minneapolis market.

C. T. Jaffray, representing the creditors' committee of the Heffelfinger Shoe Manufacturing Co., and Joseph Chapman, Jr., of the creditors' committee of the North Star Shoe Co. met about 40 Minneapolis business men on June 29 at the Commercial Club and made a report of the plan by which the Heffelfinger affairs have been handled.

THE BULL'S EYE

By the Sharpshooter

VISITING AROUND state banking conventions the last few days I cannot help but compare the feeling this year amongst bankers with that of last year at this time. It is really remarkable what a change there is—what beneficent Mother Nature when she smiles can do to change the prospect of men and nations.

Last year as June drew into July great areas of the Northwest and throughout the nation were being blasted by a merciless sun whose heat was beating down through cloudless, brassy skies upon a parched earth. Crops were burned beyond recovery, livestock was starving for lack of pasturage and feed, lakes were drying up, wells had failed, people in the drouth sections were near the stage of hopelessness as they saw the source of their income vanishing beneath the pitiless rays of the sun. The great drouth, culmination of several years of dry weather, was upon us.

Bankers at their conventions in Minnesota, North Dakota, South Dakota, Iowa, Montana and Wisconsin reflected those conditions and thoughts at their conventions last year, save that when Minnesota met in St. Paul it was on one of the very few rainy days of the summer and many were encouraged to hope some of the late corn and forage crops might be saved. It took from the Minnesota convention a bit of the gravity of the situation that faced other similar meetings.

What a difference this year! When Mother Nature last winter deposited a moderate amount of snowfall, but followed it up this spring with several heavy, wet snows, then with rainfall, frequent, almost continuous for days, all over the drouth sections of the Northwest, soaking into the ground, insuring spring planting success, everyone began to feel better.

Then came the May rains and now those of June, assuring growth of the crop, the only negative now to a successful harvest being what may come in July and early August.

What a change in human expression, sentiment and hope! Bankers, always most sensitive to business conditions, knowing just what circumstances exist in their various communities, just what to expect if a good crop is harvested, were first to sense the great change, to become optimistic over the outlook. Their conventions reflected this fine spirit of renewed hope. Not only were they optimistic in tone but they brought out great gatherings. Not a one but had the best attendance in years. In Minneapolis last week the Minnesota Bankers Association made history with its bumper attendance of over 1,500 persons.

No matter what banker, from what part of the state, you questioned about crops and the business outlook the answer invariably was the same: Great, fine, best crop in years, everybody happy, farmers paying their debts, buying from the merchants. Everthing looks good.

And so it does!

Officers MINNESOTA BANKERS ASSOCIATION 1935

ASSOCIATION OFFICERS

Wm. N. Johnson, President
Northwestern Nat'l Bk. & Tr. Co., Minneapolis
Olul Gandrud, Vice President
Swift County Bank, Benson
W. C. Krog, Treasurer
Farmers & Merchants State Bank, Stillwater
William Duncan, Jr., Secretary
Rand Tower, Minneapolis

COUNCIL OF ADMINISTRATION

1936

D. J. Fouquette, Past President
F. P. Powers, Kanabec State Bank, Mora
H. C. Baer, Security State Bank, Bemidji
C. E. Johnson, Empire Nat'l Bk. & Tr. Co., St. Paul

1937

W. F. McLean, Minnesota National Bank, Duluth
C. M. Berg, First National Bank, McIntosh
N. H. Tallakson, Bank of Willmar, Willmar

1938

H. R. Kurth, Citizens Bank, Hutchinson
B. V. Moore, First National Bk. & Tr. Co., Mpls.
F. J. Thul, First National Bank, St. Charles
H. M. Burnham, First National Bank, Jackson

GROUP OFFICERS

1935

First District Group

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First National Bank, Winona
L. H. Briggs, Vice President
Security State Bank, Houston
C. P. Sommerstad, Secretary-Treasurer
First National Bank, Waseca
W. R. Zabel, Executive Committee
Peoples State Bank, Plainview
F. J. Thul, Executive Committee
First National Bank, St. Charles

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J. O. Bondhus, Vice President
First National Bank, Heron Lake
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B. W. Lloyd, Executive Committee
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H. G. Swanson, Vice President
Drovers Exchange State Bank, South St. Paul
W. C. Krog, Secretary-Treasurer
Farmers and Merchants State Bank, Stillwater
E. J. Huber, Executive Committee
First National Bank, Shakopee
J. T. Peterson, Executive Committee
State Bank of Le Sueur, Le Sueur

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(Exchequer Club)

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W. D. Trovan, Vice President
First National Bank, St. Paul
H. G. Swanson, Secretary
Drovers Exchange State Bank, So. St. Paul
M. W. Petter, Treasurer
Empire National Bank & Trust Co., St. Paul

Fifth District Group
(Exchequer Club)

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Bloomington-Lake National Bank, Minneapolis
Wm. A. Benson, Vice President
No. Amer. Office, N. W. Nat'l Bk. & Tr. Co., Mpls.
T. W. Larson, Secretary-Treasurer
Central National Bank, Minneapolis

Sixth District Group

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Blackduck State Bank, Blackduck
S. H. Wisniewski, Vice President
State Bank of Foley, Foley
B. L. Lagerquist, Secretary-Treasurer
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L. K. Houlton, Executive Committee
First National Bank, Elk River
Geo. L. Meinz, Executive Committee
American National Bank, St. Cloud

Seventh District Group

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First National Bank, Starbuck
K. O. Sattre, Vice President
Farmers State Bank, Evansville
M. F. Schaumburg, Secretary-Treasurer
Security National Bank, Montevideo
O. W. Harrison, Executive Committee
Citizens State Bank, Brandon
F. W. Riegger, Executive Committee
National Bank of Benson, Benson

Eighth District Group

W. E. Martin, President
American Exchange National Bank, Virginia
G. C. Smith, Vice President
First National Bank, Cloquet
Stephen Kirby, Jr., Secretary-Treasurer
Northern National Bank, Duluth
Arthur Egge, Executive Committee
Merchants & Miners Bank, Hibbing
Mark Adams, Executive Committee
First National Bank, Deer River

Ninth District Group

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Ogema State Bank, Ogema
Geo. E. Buscher, Vice President
Farmers and Merchants State Bank, Breckenridge
J. S. Peterson, Secretary-Treasurer
First National Bank, Battle Lake
D. G. Johnson, Executive Committee
First National Bank, Hawley
G. A. Beito, Executive Committee
Northern State Bank, Gonvick

Tenth District Group

G. F. Jensen, President
Produce State Bank, Minneapolis
John A. Berg, Vice President
Oakley State Bank, Buffalo
C. H. Sommer, Secretary-Treasurer
State Bank of Rush City, Rush City
J. H. Hogan, Executive Committee
Kerrick State Bank, Kerrick
T. M. Olsen, Executive Committee
First National Bank, Anoka

Proceedings
of the
46th Annual Convention
of the
Minnesota Bankers Association
Held at the Nicollet Hotel in Minneapolis
June 18-20, 1935

The opening session (smoker) of the Forty-sixth Annual Convention of the Minnesota Bankers Association, held at the Nicollet Hotel, Minneapolis, was called to order at 7:45 o'clock, by the vice president, Wm. N. Johnson, Northwestern National Bank & Trust Co., Minneapolis.

CHAIRMAN JOHNSON: As vice president of your association, it is my privilege to call to order our 46th Annual Convention. In the absence of an address of welcome, I am very glad, on behalf of the Minneapolis Clearing House Association of Banks, to welcome you gentlemen to Minneapolis. We hope that you will have a pleasant and a profitable time. I might add that the absence of an address of welcome is not a new economy move on the part of the Minneapolis banks; it is merely an opportunity to give us more time for the program. The first thing on our program is a report from our Nominating Committee, of which Mr. Larson is chairman. However, before Mr. Larson gives his report, our secretary, Mr. Duncan, wishes to say a few words. Mr. Duncan.

Disclaimer

No opinion expressed, principles advocated, theories advanced or policies suggested by any party or person, however presented, shall be deemed to have had the endorsement of this Association unless the question of so endorsing shall have been referred to the Council of Administration; shall have been reported upon by it, and shall have been specifically voted upon, receiving a majority of the votes of the delegates present and entitled to vote at any general meeting of the Association.

This article of the By-Laws shall be published in every report of the proceedings of the convention.

Art. X, Sec. 1, By-Laws of the Minnesota Bankers Association.

SECRETARY DUNCAN: A few years ago our by-laws were amended to change the procedure in nominating nominees for the offices to be filled by the association. It was thought best by the sponsors of the amendment, which was unanimously adopted by your convention, to have a nominating committee consisting of a representative body, and the amendment was so drawn as to provide that a nominating committee consisting of the presidents of the groups within the association meet at least 30 days prior to the regular convention for the purpose of selecting nominees to be presented to the convention; not taking away any of the right of a member to nominate from the floor. That committee met some time ago and in the organization of the committee selected Mr. A. B. Larson of Faribault as its chairman and Mr. A. S. Newcomb as secretary. They unanimously decided upon certain nominees and Mr. Larson will now present the report of the Nominating Committee to this meeting. The election of officers, however, does not take place until the business session at the close of the convention on Thursday, so it gives you

COMMITTEE ON GENERAL ARRANGEMENTS

C. B. BROMBACH, *Chairman*, First National Bank & Trust Co., Minneapolis . . . F. W. CONRAD, Northwestern National Bank & Trust Co., Minneapolis
LARRY O. OLSON, Midland National Bank & Trust Co., Minneapolis . . . W. F. KUNZE, Marquette National Bank, Minneapolis
A. J. VEIGEL, University State Bank, Minneapolis. HARRY I. ZIEMER, Federal Reserve Bank, Minneapolis

GOLF COMMITTEE

W. R. MURRAY, *Chairman*, Midland National Bank & Trust Co., Minneapolis . . . W. A. VOLKMANN, First National Bank & Trust Co., Minneapolis
E. S. JONES, Marquette National Bank, Minneapolis . . . D. E. CROULEY, Northwestern National Bank & Trust Co., Minneapolis
V. E. MIKKELSON, Fidelity State Bank, Minneapolis

TRANSPORTATION COMMITTEE

LARRY O. OLSON, *Chairman*, Midland National Bank & Trust Co., Minneapolis . . . J. J. MALONEY, First National Bank & Trust Co., Minneapolis
L. P. GISVOLD, Northwestern National Bank & Trust Co., Minneapolis

WOMEN'S ENTERTAINMENT COMMITTEE

MRS. WM. N. JOHNSON, *Chairman*, Minneapolis
MRS. F. W. CONRAD, Minneapolis
MRS. M. O. GRANGAARD, Minneapolis
MRS. LARRY O. OLSON, Minneapolis
MRS. C. B. BROMBACH, Minneapolis
MRS. D. J. FOUQUETTE, Minneapolis
MRS. EDMUND S. JONES, Minneapolis
MRS. A. J. VEIGEL, Minneapolis
MRS. HARRY I. ZIEMER, Minneapolis

ample opportunity to discuss the nominees who are presented and you have not been deprived of any rights to make nominations from the floor at that meeting. Mr. Larson.

A. B. LARSON (Faribault): Mr. Chairman, Mr. President and Fellow Members: The Nominating Committee, consisting of the presidents of all the districts, met 30 days prior to this convention and nominated the following:

For President, William N. Johnson of Minneapolis;

For Vice President, Oluf Gandrud of Benson;

For Treasurer, William C. Krog of Stillwater.

This report was unanimous.

MR. JOHNSON: Thank you, Mr. Larson. According to our By-laws an opportunity to vote on these nominees will come at a later session of the convention. In this era of new legislation, and much information and help coming out of Washington, we have been fortunate in obtaining a speaker direct from Washington, D. C. I have the honor to present Mr. Leslie S. Baker, manager of the Financial Relations, Field Division, of the Federal Housing Administration, who will speak briefly to us tonight on the work of the Federal Housing Administration. Mr. Baker.

Federal Housing

By Leslie S. Baker

I am very glad to be here. It is the first time I have ever been in Minnesota and I hope it will not be the last. I am particularly glad to come to a state where I can reasonably be sincere and proud of the way the Federal Housing Administration program has been caught on the first bounce. We hear a lot these days about government in business and of its alleged advantages and disadvantages. I would like to point out tonight that the Federal Housing Administration is one instance of the reverse, that is, business in government. We are doing our level best in Washington, as well as here in the state office in Minneapolis, to run the Federal business basis. We have a program that Housing Administration on a strictly is, we believe, essentially sound. It has two or three big parts to the program which call for different relationships between the Federal Housing Administration and the various financial institutions concerned.

To be quite frank, I am here tonight for two purposes: to do my best to point out the soundness of the plan, to explain as much of the plan as still might not be understood by the bankers present, and to take back to Washington your ideas and your experiences in modernization loans and, more recently, with insured mortgages, so as to get the program running more smoothly than it has been and is now.

Title I, as we call it, was set up and placed in operation after the passage of the National Housing Act on June 27th of last year. To me it is a little short of remarkable that a government agency should accomplish the feat of setting up a workable plan, having it printed and gone over with a fine tooth comb for bugs in the plan, and having it work within seven weeks. That was done. On June 27th the plan was put in operation and the first loans were reported on August 12th or 13th. To date there have been more than 200,000 of such loans. The figures I have show that last Wednesday there were 199,918 loans. The loans are being reported at the rate of about ten or eleven thousand per week.

I am very glad to say that the momentum of the thing is stronger now than at any time in the past. Particularly encouraging are the numbers of new institutions that are reporting their first loans. Here in Minnesota the banks are doing their share; you are doing your share. You have 159 financial institutions reporting Title I loans to Washington. I say that with mixed feelings. We are mighty proud and glad of the cooperation that you have extended that is reflected in these 159 institutions. You know how the Act operates; you have had experience with the type of borrowers to whom you are willing to loan money. There has not been a claim filed for loss in any institution. No doubt you have these terrible delinquencies of a man that is a week overdue in his monthly payments, but that is not worrying us any and I am sure it is not worrying you.

I am concerned about the 500 institutions that haven't protection. I want to speak to them and show them how this plan means good business to them and to everybody in the community. It means good business to the property owner. He gets cash and modernization; it means good business to the building contractor; it means good business to the painter, to the hardware concerns, to the grocery stores. You cannot estimate the momentum, the snowball effect of what this means.

I have been talking to several of the bankers and others about it and I find that in most cities and towns in Minnesota it is pretty hard to get a carpenter to do any work. I think that is true principally to the Better Housing Program and the feeling that comes to property owners that want to improve their property. That is probably due to the fact—and I think it is a fact—that we are on a different side of a business cycle—that feeling that enters into a depression or the reverse of a depression, that is going to make it safer for the borrowers that come to your bank to repay these loans over a long period in the monthly installments.

The 159 institutions reporting loans, including finance companies that have invaded the state, if I might say so, from the outside and take the funds away from the state, report some 3,000 loans for a total of $1,339,000. It is in my written manuscript that I have turned it. (Manuscript shows 3,773 for $1,379,486.26.) We tabulate these loans in Washington immediately upon receipt. We will know tomorrow what the total amount reported for insurance was at the close of business at two o'clock today. We keep up to date in that because we want to know what the potential liability of the Federal Housing Administration is. Of the millions, the $282,000,000 that has been borrowed up to now, our potential liability is about 20 per cent, because we agreed to insure up to 20 per cent. Of course our real liability is not that because these loans are being repaid each day.

We have had a few claims and there have been losses. It cannot be done otherwise. People have lost their jobs. We expect a loss. We do not want any bank to make an unsound loan or to rely upon insurance but the insurance is there, whether you like it or not. What claims do come in are never exceptional. The claims by financial institutions sent to the Federal Housing Administration in Washington will be audited and if in order paid immediately. About December or January we were asked very specifically just what "immediately" meant. We could not say, being government officials we have to be very careful what we do say because that will be used against us. We are paying claims now in eight days, which we think is short enough. We hope to get it down to six days or to four days. If the claim is made out properly there is no delay whatsoever.

A representative of one of the finance companies was in my office in Washington. I mentioned that they had filed two claims for loans and he said, "Yes, we did. We wanted to see how the thing worked. We have some other delinquencies but we are handling them locally. We are very much surprised at the speed." They were properly amazed, which is exactly the feeling we want to produce from our whole set-up.

Most of you who have had occasion to correspond with the Federal Housing Administration have gotten speedy answers. The whole policy of the Federal Housing Administration is to run it on a business basis. We found after the first regulations were issued last August that it required a lot of information. We issued explanatory material which we stamped with the signature of the administrator, on which you could rely. You knew it from the regulations. We didn't want you to wait to send a letter to somebody in Washington; we wanted the plan to work from your standpoint and not from ours. In November we issued new regulations and a new contract. Those regulations amended the existing regulations principally about the borrower's income. It was felt that the proper credit minimum was a matter of five times the amount borrowed as income in the same period.

We find that of the 82 millions that has been borrowed up to date the average has been $419 per loan and the average income reported on this amount is $2,700 or $2,800, and the average duration of these loans is 29 months. The average ratio of the income to the amount of the loan is something like 14 to 1, nowhere near the minimum of 5 to 1. We found our regulations forced us to send back some of the loans because the income was not five times the amount borrowed.

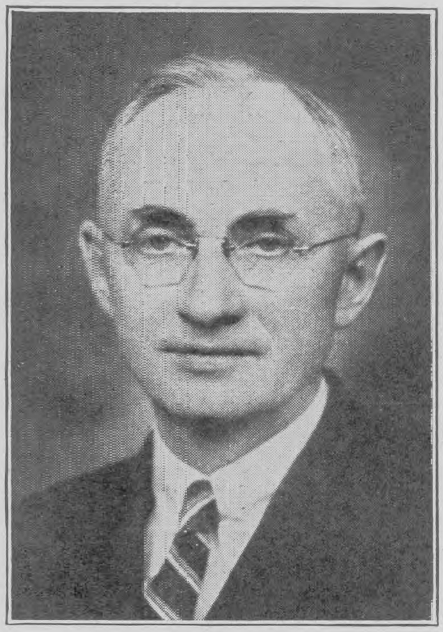
The amendments of the National Housing Act on May 28th gave us a chance to review these regulations. The amendment provided that in the case of certain properties which were designated, the categories of which were very plain, such as apartment or multiple family houses, hotels, office, business or other

PRESIDENT
W. N. Johnson, Minneapolis

SECRETARY
William Duncan, Jr., Minneapolis

VICE PRESIDENT
Oluf Gandrud, Benson

TREASURER
W. C. Krog, Stillwater



PAST PRESIDENT
D. J. Fouquette, St. Cloud

commercial buildings, hospitals, orphanages, colleges, or manufacturing or industrial plants, and that these loans would be insurable if made in excess of $2,000 up to $50,000. The significant thing in the Act itself, which helped us a lot, was the inclusion of the purchase of machinery and equipment, as well as alterations, repairs and improvements upon real property, so that a factory is now in a position to make alterations for $25,000 or $30,000 and to have those alterations include printing presses and machinery adaptable to the business.

When you take one of these loans we urge you to take a mortgage or other security. These loans are not character loans of the kind that we contemplate in the loans from $1,000 to $2,000. They are a different kind of a loan and we should have a mortgage. We do not advocate taking a mortgage from the property owner.

The amendment extended the life of the FHA plan to 1936. That gives us a chance to go on for another winter. One of the most significant changes in the regulations was this, and that is a point that I would like not to emphasize publicly: We are trying to play fair but we do not want to shout it from the housetops. You do not have to be the owner of a property or the tenant for any length of time to qualify for one of these loans. We feel that the judgment of the credit officer of the institution is better than ours and that we had better leave the matter entirely to the judgment of the individual institution, and hereafter the borrower need have no legal interest in the property to be improved.

That is quite a long step from the one which said that he had to be the owner in fee simple or the owner of a lease of 99 years duration, or a lease running six months beyond the term of the note, or the qualification that the lease must require him to make the improvements. This involved us into difficulties. We are very happy that the regulations have been broadened to that extent. We have implicit confidence in our financial institutions. We know from the experience that we have had under this plan that they are not going to crash or let down the bars to unlimited credit. We would rather leave it to you to say that a man shall have a new bathroom, if he is going to be there to enjoy it. We want you to feel free to do what you want to do, but while we want to leave it in your hands, we are not passing the buck to you.

We are getting plenty of questions about these amendments and regulations and we are going to issue new material, new forms of statements on these $2,000 to $50,000 loans. We want you to take a credit statement from the borrower because, as I say, they are not a strict character loan.

So much for the new amendments. We hope it will make it possible for the banks and the FHA and the borrowing public to do more business together, because without exception the banks that I have talked to, who are handling these Title I loans, like the business; so too, I am sure, will the banks and the institutions that have not gotten started. There may be no demand in their community as yet or it may not be that the demand has shown up as yet, but the demand may be there; the better housing committee may not be active, and there may be more reasons why you have not been able to get started. Until we have credit sources in the majority of the states of the United States, we won't feel our job has been done satisfactorily. If a man has money and wants to fix up his house, we do not want him to borrow; we want to help the man that has no money. But we don't want people to feel that we are urging people to go into debt. But we want to give the property owner the benefit of the lowest financing time in history and it really is. So much for Title I.

The same principles of practical application to the existing financial mechanism which have been kept in mind successfully under Title I, guided those who formulated the rules and regulations under Title II, that is, mutual mortgage insurance. They were dealing, however, with a more difficult and complex problem, one which involved the maintenance of proper housing standards on wide varieties of dwellings, and the insurance of long-term mortgages in conformity with the separate laws of 48 states, remembering always the prospective mortgagor, who is the principal beneficiary of the Insured Mortgage Plan.

No artificial stimulation of new construction is contemplated in connection with Title II. Instead, the Insured Mortgage Plan seeks a sound readjustment of housing conditions and real estate values, so that private residential construction may proceed freely and naturally in areas where a basic economic demand exists.

We conceive it to be one of the purposes of the National Housing Act to do what we can to correct unsoundness in the present mortgages and the troubles we have had. I don't think Minnesota is unfamiliar with them. We want to eliminate the secondary and tertiary mortgage financing, with all their disadvantages for renewals, their bonuses and high rates. The beneficiary of the FHA is the property owner. He is the prime beneficiary. We have that in mind all the time. The system which has been developed is a trifle more complicated than the Morris Plan. We are required by law to pass our own credit judgment of the borrower. We cannot leave that to the individual institution. I wish we could. The relation of Washington to the individual is different under Title II.

Mr. Fred Schilplin is the contact man here in Minnesota. Mortgages are insured by him and not by Washington under Title II. After that they are turned over to the state headquarters, the mortgage set up and the method of valuation then very carefully worked out. I think it is safe to predict that they will become fairly standardized procedure. For one thing, the underwriting part in Minneapolis insists on five different things on which they will grade the mortgage before they will insure it. They will inspect the physical property to be refinanced or to be built. They will look it over architecturally. They will make an estimate of its value, not in the past but its value from now on—its full value in the future. Second, they will make a reasonable judgment as to the value of that property in relation to its neighborhood. Third, they will make a judgment of the value of that neighborhood in relation to the community as a whole. Fourth, as to the borrower himself, we will have to ascertain his reasonable capacity to pay the loan in the allotted time. We look up his income, his credit standing, and find out whether he pays his bills promptly, whether he has a good reputation in the community, and whether he is the type of man we want as a mortgagor, and, Five, we will judge whether the age of the mortgagor is such that he should not have such a long loan or whether he is young, whether he could stand a longer loan for periods up to 18 or 20 years, with reasonable expectancy of paying that mortgage up.

Those things are necessary to guide us. Any property owner who passes muster and gets a good rating should be able to thrust out his chest and say, "I am pretty good." I am surprised that there are as many mortgages as have been insured and have passed the rating that they have to go through. If there is a reject rating in any one of them, we are forbidden to make the insured loan or to insure the loan that may be made. We are persuaded that as banks, insurance companies and other institutions become more familiar with the attractive phases of these mortgages that they will want the business.

Mr. Schilplin forwarded a remark to Washington the other day that I think was very pertinent. It seems that the bankers were asking a lot of questions about the amounts that the FHA will give for the property, and the bankers said: We don't like this. Cannot something be done about this? Mr. Schilplin said, Gentlemen, about six months ago you were saying that about the modernization loans. Some months from now you will adopt the same attitude towards these insured mortgages that you have since adopted toward the modernization loans.

Right now in Washington we have on the table certain changes we wish to make in Title II loans. They want to avoid any book or artificial stimulation of business. We want to be careful. We don't want any boom; we want to be sure that there is a good foundation laid, that there are good structures, good American structures whose mortgages are sound, structures that anybody will want. We want to build up confidence in our institution so that you will have no hesitancy in taking mortgages we put our stamp of approval on.

The whole Title II is a long term proposition. There are many questions about it. There are still some little peculiarities about it, but one thing is certain no financial institution, no mortgagee runs any risk, because the safety of the principal is never open. If you find it necessary to foreclose, you can acquire it without foreclosing and you may then elect to keep the property yourself and forego the insurance and deal with it as you would ordinarily, or you may elect to turn that over to the Federal Housing Administration and receive in exchange mortgage bonds, which are made payable prior to July 1, 1937, and guaranteed as to principal and interest by the United States. Of course, some would say, why should we bother about 3 per cent bonds when we can get a 5 per cent mortgage? Well, I answer them this way: Those who expect the 5 per cent and accept the mortgage, must expect an element of risk. Some banks want the 3 per cent bonds with the element of risk removed, but still have some profit. Of course some bankers want the 5 per cent with all question of risk removed. I do not think that is a reasonable expectancy.

One question being asked is this: How will bank examiners regard these long-term mortgages? A letter was received recently from the Hon. J. F. T. O'Connor, comptroller of the currency, stating that national bank examiners will be instructed not to classify such loans as slow, doubtful, or loss. We have sent a copy of this letter to every institution, along with our mailings of this and that material. I know some of you will smile when I refer to the material that has come to you in the little brown envelopes and the large brown envelopes. We are going to try to concentrate our fire from Washington, but we are pressed all the time on getting some news and some things you ought to know with the way of getting it across to you by mail. We cannot do it by personal visit, although the Minneapolis office attempts to see you and try to iron out the problems of the moment. We expect a letter from Mr. Crowley and we will duplicate that to you soon.

There is one feature that must not be overlooked and that is that you can take some of the mortgages that may be in your portfolios now and have the property again qualify. You can place those on the insured mortgage plan so that complete amortization can be commenced at once. Some people have the idea that this applies only to new construction; it does not. If the owner of a property has a 20 per cent equity in the value of the house, he can come in under the plan.

Now as to liquidity under Title III. Title III provides for the setting up of a National Mortgage Association for the purchase of mortgages. I find there are some bankers that seem to think that Title III is to be set up with government capital. Wherever we go they say: How about Title III? The answer is that Title III, or the National Amortization Associations, are intended to be set up with private capital. We can very easily set one up with government funds, but that is not the intent of the NHA. The NHA has as one of its basic principles, doing it with private capital all the way through. We want to see if it can be done. We do not want to form any RFC corporation, or with any other money.

The capitalization requirement of the First National Mortgage Association was five million; they could capitalize up to 10 times that if needed. The minimum capital required is now two millions and they may capitalize up to 12 times that two millions. It remains to be seen whether private capital will be attracted to the form of the new mortgage association. Just at present I think it might still be formed because the volume of merchandise in which it will deal has not reached the point where it will give a clear profit. An example of that is the Pennsylvania State Workmen's Insurance Fund. They are allowed by law to invest in real estate. They had about a million dollars, eight or nine hundred thousand, that they were most anxious to put in mortgages, if they could get 5 per cent. They found that unless they hunted for the mortgages, that they could not get them as the banks were taking them and not letting go. I think that condition will obtain as long as money remains as easy as it is now. I can see ahead of us, if money becomes tight, some day when it may be necessary and you would like to be able to liquidate these mortgages on short notice. I think that provision will be taken care of. The FHA is well aware of that and will see that you are protected.

The Pennsylvania State Workmen's Insurance Fund had a low cost housing project that they invested in, in Meadville, Pa. It consists of groups of houses where the ownership of all the houses remains in one individual or corporation. This was a mortgage on a lot of houses, one mortgage for $800,000, and the FHA has insured the whole project. That is the kind of business we like to get. It is clean and it is very encouraging all around. A lot of us who have deliberated far into the night are glad to see results of this kind and to see how unemployment is on the decline. We believe that the tide is turning and the momentum of this, along with the other stimulants people have for doing things constructional, will provide us with the upturn necessary for good business. We realize, gentlemen, that the financial institutions, the banks and life insurance companies, play a great part. Frankly, we would be sunk without the cooperation of the banks. We offer you our cooperation; we will do everything in our power to make the thing fit in with your regular banking procedure so that you will be able to get a proper use of funds and so that people in your community will be able to enjoy the benefits of the FHA. I thank you. (Applause.)

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VICE PRESIDENT JOHNSON: On behalf of our association, Mr. Baker, I am very glad to thank you for your interesting talk. We hope the next time you come to Minnesota we can offer you a better brand of weather, that is, if you try to play golf. Again we thank you.

MR. JOHNSON: I notice Mr. Adam Lefor, State Bank Examiner of North Dakota, in the audience and I am wondering if he would care to come forward, at this time, so that he may be introduced. Mr. Lefor was introduced and made a few remarks.

MR. JOHNSON: Mr. W. R. Murray of the Midland National Bank & Trust Co., Minneapolis, is chairman of the golf committee, and I will call upon him now to distribute the prizes.

W. R. MURRAY: I am not going to hold you here very long tonight. I am going to hurry as fast as I can. I know you all are hungry and would rather I would hurry it through. We had a nice play at Interlachen Country Club today and I am sure that those who did play enjoyed it very much, although the weather was against us, and, of course, was not a pleasant one on account of the rain. There were 125 members who participated. We have only 25 prizes and I am sorry to disappoint the 100. Perhaps they will fare better next time. Now, I will call the names of the different winners of the various prizes.

No. 1—Low gross medal score—J. R. Chappell, Merchants Bank, Winona, 85.

No. 2—Low net medal score—R. S. Curran, Goodhue Co. National Bank, Red Wing, 92-29-63.

No. 3—Blind bogey (tie draw)—G. H. Dinkel, Peoples National Bank, Long Prairie, 110-28-82; H. T. Scriver, First National Bank, Cannon Falls, 105-23-82.

No. 4—Most 3s, A. F. Johnson, North Branch; most 4s, S. H. Severson, Hopkins; most 5s, R. D. McDonald, Stillwater; most 6s, Guy Smith, Cloquet; most 7s, W. A. Sundberg; most 8s, Roman Niedzielski, Gilman.

No. 5—Highest (or worst) gross—A. T. Westrum, Grasston, 142.

No. 6—Highest (or worst) net—F. G. Stoudt, Chatfield, 140-30-110.

No. 7—Highest score on any one hole—S. M. Wisniewski, Foley, 12.

No. 8—Lowest score on any one hole—J. N. Peyton, Federal Reserve, 2; Ray A. Butts, Carlton, 2.

No. 9—Greatest number of pars—D. C. Merlo, Caledonia, 6.

No. 10—Foursome low net—O. R. Johnson, Center City, 96-30-66; Henry A. Johnson, Center City, 108-30-78; C. J. Johnson, Center City, 107-30-77; A. T. Victor, Lindstrom, 103-30-73. Total, 294.

No. 11—Foursome low gross—M. L. Lundsten, Buffalo; S. Stearns, Hutchinson; Ed. Sletten, Willmar, and Geo. Umland, Hutchinson, 412.

No. 12—Least number of putts, 18 holes—M. C. Tesch, Elk River, 29.

No. 13—Greatest number of putts, 18 holes—Frank Powers, Mora, 53.

No. 14—Putting contest, 18 holes—Paul Gillespie, Little Falls, 35.

CHAIRMAN JOHNSON: At this point, we will adjourn until tomorrow morning at 9:45 a. m.

WEDNESDAY MORNING SESSION, JUNE 19

PRESIDENT FOUQUETTE: We will now come to order and I will ask everyone to rise for the pronouncement of the invocation by Dr. Frederick D. Tyner, pastor St. Luke's Episcopal Church, Minneapolis.

DR. TYNER: After my prayer I will ask you to join in the Lord's prayer with me.

Almighty God, Who hath given us this good land for our heritage, we humbly beseech Thee that we may always prove ourselves a people mindful of Thy favor, and ask Thy blessing on our land; save us from foolish discord and confusion; from pride and arrogancy, and from every evil way; defend our liberties and fashion into one people the multitudes brought here of many tongues. Bless those to whom in Thy name we trust the authority of government that there may be justice and peace at home through obedience of Thy law that may show forth Thy praise among the nations of the earth; at the time of prosperity fill our hearts with thankfulness; in our time of trouble suffer not our tears to fall. Grant to all the officers, directors, and members of this association the strength, the courage, and the wisdom and the faith they need to do their work to Thy honor and Thy glory, and we pray that in all deliverations and discussions they may be guided by Thy Spirit to follow that course which shall be for the good of all, whom they may be called upon to serve. This we ask in the Name of Him Who taught us to pray:

Our Father, who art in heaven;
Hallowed be Thy Name;
Thy Kingdom come; Thy will be done
On earth as it is in Heaven;
Give us this day our daily bread
And forgive us our debts as we forgive
our debtors;
And lead us not into temptation,
But deliver us from evil.
For Thine is the Kingdom, and the Power
and the Glory forever. Amen.

The Grace of our Lord Jesus Christ and the Love of God and the Fellowship of the Holy Ghost be with us all. Amen.

The President's Address

By D. J. Fouquette

The events of the past twelve months in the light of unemployment and reemployment problems, aspirations of world masses, Huey Long's "Share the Wealth" campaign, the "Townsend Plan" and what not, general criticism of capitalism in a period in which the framework of society itself appears to have been under reconstruction, make the mere consideration of association affairs appear insignificant and unimportant.

The consideration of those activities in the light of the all importance of the business of banking in relation to modern society and business, and the general misunderstanding of our business of banking, makes that subject timely and of sizable import. It makes that a proper subject to consider at a convention such as this. I shall therefore review somewhat briefly the association and some of its activities of the various committees during the past year.

The first phase of paramount interest is that of membership, and the activities of the membership committee under the chairmanship of George A. Haven, president of the Root River State Bank of Chatfield. It is a genuine pleasure to report that the paid up membership (which is the only membership we list) in proportion to the total number of banks in our state at this time, is greater than it has been for many years past. It certainly indicates general approval of the activities of the Minnesota Bankers Association and also indicates work well done by the Membership Committee. Your officers are most grateful for the splendid response of this great number of banks endorsing and supporting the work of the association by the prompt payment of dues. The membership committee is deserving of praise for a job well done.

The members of any association have a right to expect benefits from the association they morally and financially support. In this, the Minnesota Bankers Association for the past year, has numerous accomplishments to its credit, and we must not overlook the fact that full measures of credit must be rightfully allocated to those members whose time and untiring efforts made such accomplishments possible. I shall enumerate a few of the beneficial results with a mention of the committee contributing.

The Securities and Safety Deposit Box Committee, under the chairmanship of Mr. A. J. Veigel, president of the University State Bank of this city, has accumulated a great deal of material relating to safety deposit boxes operations and some information under the head of the committee on Securities, which should be most valuable to our bank generally. It has been my contention for a long time that our banks are not sufficiently compensated for the liability they assume in the operation of safety deposit boxes, that is the average safety deposit box department of many banks. I believe that this committee should continue its good work, as the material which they are accumulating is becoming more valuable every day and use of that material ought to be made at some very near future time.

The Agricultural Committee, under the chairmanship of J. H. Gunderson, cashier of the Blue Earth County State Bank, in cooperation with the Agricultural Commission of the American Bankers Association, was of considerable assistance to the farmers last spring during the period of arranging seed loans. The members of our association were furnished the latest information on this subject through the efforts of this committee. The Agricultural Committee also has made extensive studies on the subject of land conservation and farm accounting.

Our banks are beneficiaries of most fruitful efforts on their part through the Committee on Insurance. This committee, under the chairmanship of Fred A. Buscher, executive vice president of National Bank of Commerce of Mankato, secured an arrangement whereby banks are provided burglary, holdup and fidelity insurance coverage at rates which represent great savings to the banks. Our banks have many reasons to feel proud of this arrangement and to feel proud of the St. Paul Mercury, an affiliate of the St. Paul Fire and Marine Insurance Company of our State of Minnesota. The savings to the banks in many instances, represents many times their annual membership dues paid to this association. Our secretary, Mr. Duncan, did a great deal in directing this particular accomplishment and in effecting the tremendous savings to our banks. Mr. Duncan and the committee have much credit due them for the services performed in this regard.

We have emerged from a legislative session with some new favorable banking measures and with no new unfavorable regulations or laws. It may be safe to say that all new legislation requested by our association from the 1935 Legislature was granted and all measures opposed were defeated. These satisfactory results indicate a considerable degree of understanding and confidence of our law making bodies towards the banks. Our Legislative Committee, under the chairmanship of John E. Odegard, president of the Santiago State Bank of Santiago and under the guidance of Secretary Duncan, performed well. Mr. Duncan's keen understanding of the bankers' problems, with his rare ability to clearly state and fairly present such problems to our senators and representatives, secured in each instance the full cooperation and confidence of the men responsible for our new laws. We are fortunate indeed to have a man of such ability during a period when strong factions and sometimes political demigods strive for personal gain at any cost.

The question of taxation is always a problem. It is one of a definitely complex nature in the operation of banking and one with burdensome tendencies. The Committee on Taxation is composed of efficient men. Mr. C .B. Brombach, of the First National Bank and Trust Company of Minneapolis, is chairman of the committee, and together with his committee and the assistance of our secretary's office, represented our banks properly. A continuance of the agreement permitting reduction of personal property taxes was again secured. This again represents a savings to the banks. The extension is also a satisfactory arrangement for our law making bodies of our state. The Tax Committees of both Senate and the House have expressed their appreciation for the splendid cooperation of our banks. It has been stated that this is the first year that tax agreements of all our banks (with a few exceptions) properly signed, were in the hands of the legislative tax committees less than a week after the adjournment of the Legislature. Again evidence of services were performed by the tax committee.

The majority of the members of the Minnesota Bankers Association are of Unit or Independent type bankers. It is natural to assume that the tendencies of this group in our association activities predominates. The force and power of this majority, determined definitely by convention mandate, the policy of vigorous opposition to any form of branch banking. Our members also in convention designated the Unit and Independent Bank Committee. This committee, under Chairman M. L. Erickson, president of the Lake City Bank & Trust Company, has kept in close touch with developments affecting the unit type of banking. Taking into account the great majority of the members of our association being independent bankers, the convention mandate in opposition to branch banking and the appointment of a unit bank committee, the interests of that group have every assurance that this association is bound and obligated to serve it well.

At the beginning of the last year a great deal was said and done relating to an important committee—the Public Relations Committee. It appeared then that a program to create a better general understanding between the public and the banks was opportune. In a hope of taking advantage of the then existing circumstances, a broad and comprehensive plan of newspaper and radio publicity was designed. The program received the full endorsement of the Council of Administration and the endorsement of the majority of the large institutions. The institutions of the rural area for which this program was primarily designed, failed to recognize the value of this plan, which, much to my regret, necessitated its temporary abandonment. I believe the lack of cooperation was prompted by a misunderstanding of the purposes of the plan. While the failure of placing the plan in operation was on account of the lack of support from the banks that would have paid a small part toward paying its costs, I want to say that I was more interested in the support of a large number of our banks than in any contribution of any individual institution. Although the plan was not placed in operation, I now express my appreciation to those bankers who signified their acceptance of the plan by signing the pledge cards. A further attempt along somewhat similar lines may accomplish results at a future time.

My observations as your president for the past twenty months have convinced me of the sound value of the Minnesota Bankers Association to the banks. We are living in a world of organization—every craft and trade highly organized for its perpetuation and advancement. I can visualize what back numbers we soon would become in this continuous march of progress were we not striving with the momentum of unity for the preservation of our rights and for the acquisition of the new things and methods.

These same observations in my capacity of president, have been enriched in that they created opportunity for me to learn to know intimately a genuinely clear thinker and a loyal friend, this clear thinker and friend being the very competent and energetic secretary of our association, Mr. William Duncan. Any degree of success that any of you may credit me with in these association affairs is the result of friendly cooperation and practical counsel of that individual. His ability to cope with all situations has very definitely won my admiration. I am confident that those of you who have had the opportunity of close contact with him will agree that his "way out" of your difficulties was just the fair and proper solution of the problem. He is possessed of a personality, and has the ability, fitting him for the office he holds in our association in a manner that is wholesome and truly assuring of results and many accomplishments for all our members.

And now, ladies and gentlemen, as my term of office approaches a close, permit me most heartily to thank you for the high honor which has been mine during the past twenty months. It has been a pleasant and distinct honor to have served as the head of this association. For the accomplishments of your association during my term of office, I wish credit to be given where it belongs: to the Council of Administration, the several association committees, the officers and the secretary, and to the members who by their loyal support made possible those accomplishments. Thank you. (Applause.-

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PRESIDENT FOUQUETTE: The next order of business, ladies and gentlemen, according to the program should be the report of the Council of Administration, the Secretary's report, and the Treasurer's report. Believing that these reports, as soon as they are in printed form, should be mailed to the banks where they will receive proper attention, and then be filed with your other bank material, instead of disturbing the report, we are going to mail them to you. I believe you will find them complete in every detail, and with that in mind, with your permission, we will pass up this particular order of business and proceed to the next order of business.

Due to the weather and to the non-operations of airplanes during the past few hours, our program has been completely changed. It is our pleasure this morning to listen to the speaker who was to be the second speaker on our morning's program. He is a gentleman that I know from his writings on banking and related subjects. I am sure a great number of you know him in that way also. I feel his ability as a speaker is equally good to his writings. I take great pleasure in presenting to you Mr. C. B. Axford, the editor of the American Banker, New York, who will address you. Mr. Axford.

Independent Banking

By C. B. Axford

I hope that your President has not caused any anticipation of hearing an orator. I am a writer and much prefer to sit at my desk and scribble a few lines and get them into print for the reading audience than to write the same lines and have to say them. Nevertheless I have a few weak moments and agreed to make a talk such as this. The reason I have a weak moment is, there seems to be a few problems in our banking world and a few thoughts I want to convey to you by voice and get your reactions on rather than work in a little cubicle and write them. I thank you for the pleasure I have in coming here and I hope it will be in some way compensated by some idea on my part that will be a help to banking in the future. I cannot make a speech but I am going to try and read to you about the status quo in which we find ourselves today and a way out of it, and since the hour is not too early I am going to dispense with all the side-play and get down to brass tacks.

It has been my observation, as a member of the staff of a small bank and as a member of the staff of the American Banker for the last eight years, that the local bank most infested with local politicians is pretty surely a poor risk. The same thing holds true with big banks, especially true with central banks.

Politics and banking are like alcohol and gasoline. The mixture is dangerous. Currency depreciation, inflation, and easy bank credit have often been compared with that old friend of the family, Demon Rum. It is easy to go off on another spree to cure the headache of the last. American politics today is on the way to becoming a confirmed drunkard on over-extended credit. Only one thing stands in the way, the tradition of independence of American banking. American banking is getting a little afraid of Old Man Politics' promises to reform. But Old Man Politics pretty soon must either reform or get control of whatever is left of the American banking system. And he doesn't think he can reform just yet.

The old addict and his gang still come to prayer meeting and say that they have no intention of becoming habitual drunkards and will sober up sure and pay something on account just as soon as they can forget their troubles. Meanwhile, just to make sure that Old Man Banking does not lock up the family entrance for the night, Old Man Politics wants the keys.

Gentlemen, therein is the story of the independence of American banking and Title II as well as I know how to epitomize it.

The Federal Administration has arrived at the point where it apprehends that Old Man Banking will lock up the cellar and Old Man Banking has arrived at the point where he is beginning to to be afraid to go on. But can he stop?

And if he cannot stop, what is left of those principles of "free banking" and independence which once were so dear to Americans, chiefly those of the Democratic Party?

It may be worth while to discuss this question. I think in discussing it I can throw some new lights on the fundamentals necessary to a real approach to independent banking on both a local and a national basis.

There is little doubt in my mind but what the Banking Act of 1935 will pass. Certainly in what form I do not know, but very much in a form which will give the federal administration the powers they are now seeking. President Roosevelt has given it his radio blessing. Against this is Carter Glass' desire to re-establish the independence of the American banking system at the top. He fights his own party single-handed almost in one respect at least, to save

C. B. AXFORD

both American banking and American national finance from the fate which has befallen other nations which have endorsed the policy of giving the keys to their banks to their national treasury. But old Carter Glass may be powerless in the face of the need of Old Man Politics for assurance that his bankers will not lock him out, even though he swears to us this is his last binge on credit.

I fervently hope that a certain New York banker is right, that this is Uncle Sam's last year off the reservation, and that as their friend in court, Governor Eccles of the Federal Reserve Bank will be able to guide the old gentleman home safely, put him to work and nurse him back to fiscal health, and create a central bank that will be the paramount of all the virtues which our Federal Reserve banks have thus far lacked.

But it has not worked that way in other lands. Once started on the way of deficit financing, made easy by increasing control and subservience of the banking system, national treasuries generally have halted only when public distrust of the banks and the currency and a violent upthrust in the cost of living have showed up national financial dissipation for the fraud that it is really. Therein lies the danger in Title II—the fact that it is a continuation of our past trend (under Republican as well as Democratic rule) toward more, rather than less, political influence in the Federal Reserve System, and hence Title II is a new assault upon our banking system's independence under circumstances which certainly endanger our national banking and fiscal solvency.

The chances are distinctly that when and if ever Mr. Eccles, in the name of sound banking and finance, decides that Uncle Sam should taper off on his rake's progress, he may be gently but firmly displaced by some more complacent Federal Reserve administration, just as his theories have displaced those of men a little more reluctant in their disposition to surrender to the Treasury.

Crediting our present Federal Reserve Board and the Roosevelt Administration with the best of intentions, the powers granted under Title II would still be anything that any future administration wants to make them. As a Democrat I would fear ever to see them exercised by a Republican Administration. As either Republican or Democrat, I would regret having created them as the tool or stepping stone to some Socialist administration.

Yet they are going to be created unless President Hecht of the ABA and every one of us can sell the American people and their congressmen out of their determination to conduct just one more noble experiment—this time in socialized banking.

I hope sincerely that we who fear thus are wrong. There is nothing that I would like better than to be proven wrong on such a prediction.

But there is no more clearly written thread of human history than that of the history of folly in matters of national currency management and banking. Wise people like the British and French preached the necessity for a separation of state and banks long ago. But even these people have to learn the lesson over again every so often.

We learn much in our schools about the necessity for the separation of state and church as one of the fundamentals of liberty in a liberty loving land. Freedom of religion is held one to be of the rights of men.

But we do not learn much of an equally important essential to liberty, the separation of state and banks, a complete and permanent separation of Old Man Politics and Old Man Banking.

I believe that the greater degree of local control that can be had in local finances the greater the flexibility of the entire economic system and the less likelihood that either banking will become so big as to dominate politics, or so big that it will become the tool of political lust for power, which is the direction in which it is moving today. We can see, if we look through history, or even through the world of finance today how clearly the consolidation of the nation's banking systems into a centralized machine plays into the hands of the revolutionary, or the reactionary! Communistic leaders have long since preached getting control of the banking system as the first step in getting control of business and industry. In Australia the labor party which has for its platform the nationalization of the Australian branch banking system as their first step in the creation of a socialist state. The voters rejected them but Australia saved temporarily by depreciated currency, is still far from out of the economic woods. The fact remains that the concentrated control of the Australian banking system made it easy for labor leaders, the socialists, to dream of abrogating its independence and using it as the tool for their desire to socialize all major business.

In Italy and in Germany, the fascist leaders found the powers concentrated in their nationwide banking systems their handiest vehicles for regimenting the liberties of their people into their present state-controlled status.

But we are not ignorant of the principles involved even in this country. We treasure our banking independence jealously. We understand the need of preserving local financial control as the mechanism of local freedom of initiative and development. I might say that right here at home in the Northwest the great banking systems were founded upon the desire to save for the great Northwest some shreds of independence against the looming threat of national branch banking which seemed on the way in 1929.

If Anglo Saxon history teaches us anything, it should teach us, however, that the greatest safeguard of any people against exploitation by bad government is an independent banking system —one independent from top to bottom.

Bad government can mask as good government as long as it can finance its spending without difficulty, just as bad business masks as good business as long as it can keep its volume rolling upward upon a pyramid of credits. Nothing so facilitates the masquerade of a financially weak government as good government as subservience or outright control of the resources of a country's bank and their reserves.

We are told there is no intent to abuse control of our banking system if we yield still further to the Washington idea, that they, too, there agree with us that disinterested independence is their objective in Federal Reserve reform. We could put more faith in that disinterest if it were not for the environment of spending in which it is being nurtured, and if it were not for the class of "share the wealth" advocates who applaud and urge it.

Benevolent indeed are those who want to give us more federal control of central banking, and bigger and better federal deficits. I know of no soul more imbued with the spirit of good will toward men than the good reverend of my church, Father Coughlin. He would give away his last dime—and yours. Long, Sinclair and Townsend like him, are the best intentioned of men, with all their ambitions but they have one thing in common, they all see their dreams implemented and financed by control of the banking system. Without the power to borrow credit and issue money to their heart's content, they could not succeed, they know. What they do not know is that they could not succeed, even though they were able to use all the salt in the ocean for money. The net result of their governmental beneficiences financed by fiat money and control of banking would be a consumption and dissipation of the national wealth and a destruction of the very banks and money which they consume.

It is easy to see how the idea of control of the nation's banking system, such control as is proposed, or even control of a part of it, must constitute a continuous temptation to such dreamers and dazzlers of Congress as these. It is easy to see how even sober men in charge of the nation's fiscal policies today can persuade themselves that another year of deficits will make us richer instead of poorer, easy money, easy borrowing does that to the best of us. It is easy to see how Congress can vote 3 and 5-billion-dollar appropriations without "batting an eye;" how independence of a banking system is the one thing they fear since it might thwart their plans for using the people's money to finance their paternalistic and impractical dreams.

I have no sympathy for those who would argue that the Banking Act of 1935 is unimportant because it would merely put into words the powers which the political authorities now possess and will continue to possess regardless of what we do. Isn't such an argument merely an apology, a confession of unwillingness to argue the question of political control of the Federal Reserve System in its own merits? Even as they stand, are not the powers of political influence over our Federal Reserve banks already too great?

Why? If the measure merely puts into words powers which already exist, why go to so much trouble to merely rewrite a law? And, if more effectual political control is not contemplated, why, in rewriting the law, not respond to the warnings of history and of economic reason rather than enlarge the avenues of political influence down to the twelve Federal Reserve banks, which today maintain a degree of independence which apparently is disagreeable to the Federal Reserve Board itself and to the Federal authorities in Washington.

The answer must be that in the minds of a great section of the great steering committee at Washington a need exists to make absolutely clear-cut the means by which the political arm of our government can conform to its will the American banking system. Gentlemen, I hold no such Fascist or Communist power is needed by a soundly constituted government following sound common sense, national commercial and financial policies.

Such a nation's banking system is expected to stand on its own feet, the free and independent trustee of the nation's fund of past and future savings.

Such a nation's credit, moreover, needs no artificial support. Individuals buy its bonds readily if it has any outstanding. Its treasury needs no banking affiliate to bolster and manipulate the market for its securities with credit which the public fails willingly to extend on the basis of its financial solvency.

Such a government can afford to let its central bank be a bank, go independently about its real business of guarding its solvency, as the national reserve depository, by never discounting the future in advance more than a few months at the most.

But the government which has abandoned the principles of sound economics, either because it is too weak to defend itself from the octopus of officeholders and pensioners or not strong enough to levy sufficient taxes and is merely drifting between the devil of inflation and the deep blue sea of deflation,—such a government can use all the powers over its banking system it can get. And when it seeks them, I say, beware! And let the people who have money in those banks also beware, not only for their money, but for their liberties as well!

Once we prided ourselves on being a nation of checks and balances. We lose much when we surrender, in more than one sense, the checks and balances of our Federal Reserve banks to centralized Washington control. Use easily degenerates into abuse; management into mismanagement, for who is there to say "nay" when Old Man Politics, in the role of borrower and spender, needs a new loan from the government in its role as trustee and lender?

If the leaders of Congress are willing to stand with us in opposition to such a trend away from American ideals of independence, if they are ready to join with us in the theory that less rather than more political control is what we want in our so-called Supreme Court of Banking, then there is no need for rushing Title II. Rather, there is need for a rebuke for those predatory forces of the American public who wish to feed their dreams upon the savings of the American people.

That rebuke, I say, should begin with a delay of at least a year for real study and analysis of what reform we really need. The administration seems unwilling to delay. Does it fear that study and public debate will crystallize into a demand for the exact opposite of the policies it urges?

A year's more debate on Title II, I believe, will bring a realization to the nation that the true path of banking reform leads away from Title II and toward real independence for American banking at the top. I suggest that with the trend of Treasury deficits as they are, it would be vastly wiser for Congress to legislate directly now to remove the secretary of the treasury from the Federal Reserve Board. Take away from the President of the United States the implied power and promised power to remove the governor of the board without, let us say, the consent of the entire board. Give Mr. Eccles, I say, and his successors the feeling that when interests of sound banking and unsound Treasury policy clash, what will be sacrificed will be the Treasury policy and not the governor of the Federal Reserve, and the U. S. dollar for which he is trustee, will be sacrified. Moreover, before you are done, let us set a date by which the Federal Reserve banks shall have divested themselves of their holdings of the federal deficit and establish as a principle of national finance that never again shall the Federal Reserve credit pool be used for the syphoning of the people's future savings and future earning power unwittingly into what may be a bottomless sinkhole of federal debt.

The lesson of economics is that a good central bank, like a good local bank, is an independent one, its first responsibility its own solvency, and after that, sympathetic, hard-headed treatment of the community's need for credit.

The British long before had learned this lesson. The Bank of England is no milch cow for the Britsh treasury. The British people are smart enough to know that when the Bank of England insists upon a balanced budget, it is doing it for the best interests of both government and banking over there.

But as a nation we seem to be rushing into the opposite direction blindly. Even Mr. Roosevelt and Mr. Eccles may not be able to persuade Congress that there is a time for budget balancing and control when they feel that that time has come. Remember how Mr. Hoover and Governor Meyer failed in their day in 1931?

I differ with those who call monetary issue a "natural function" of governments. It is much more a natural function of banking and responsible bankers. The history of economics is strewn with failures of attempts by governments to manage both their own finances and the people's money.

Governmental currency and banking failures have cost the world far more than any other form of financial abuse, including stock market speculation. And what is worse, the chaos of currency and banking resulting from governmental mismanagement leads far down the road toward dictatorships. "Life, liberty and the pursuit of happiness" are easily denied to a people who have surrendered control of their banking to any self-interested central or political agency, governmental or otherwise, and eventually lost thus not only their money, but their freedom of initiative that money represents, as well. We have only to see the abject condition of individual initiative and freedom in such countries as Germany, Russia, Italy and Japan to get a glimpse of the way that control of the banking machine facilitates control of the industrial machine and of personal liberty in the hands of even benevolent tyrants.

And the tragedy of it all is that we as bankers are ourselves so heavily involved in the nation's deficit and so dependent upon Uncle Sam because of our tremendous liabilities that we can only plead with him to "get on the wagon" and hope for the best.

What can we do about all this? Must we merely sit and take it, play the game for all that it is worth until the next crash, hoping, as in 1929, for the best, and that, when and if the crash comes, it will somehow or other not be our individual funeral?

I do not think that we need to be such fatalists. If we do the right thing during the next few years, perhaps we can find the way to a sounder system of American banking, a system that will make us independent in fact as well as in ideal, from the FDIC and any other agency of outside control, and which would make much of the Washington setup unnecessary and eliminate all the FDIC altogether. There appears to me to be a way out of our present dilemma.

It lies in the direction of independent banking—really independent banking. Independent in a direction in which one of your own associates is pioneering. I had the privilege of making a talk before the American Bankers Association last fall. At that time my analysis of the American Banking system was that we were doomed to a crisis as long as our present system continues. I suggested some form of blockade, some withdrawal of national funds, as a policy. I discovered here one of your own bankers had been thinking along those same lines. He is Mr. Ralph Manuel of the Marquette National Bank, and perhaps that is one of the reasons why I am here.

We like to pride ourselves in America that we have an independent banking system. "Free banking" has been a watchword of American economics for a century. But will our "independence" really stand analysis?

In my effort to reduce to simplest terms the problems which confront the American banking business and the local bank, the regional bank, or the Federal

Reserve Bank—such questions as branch banking, bank failures, governmental control, political domination—I found at the bottom of things that what we have today is not an independent banking system, but a dependent system.

Dependent for its very life upon the maintenance of the illusion that billions of deposits can be invested in assets of distant maturity and converted into cash in times of need.

Today we are dependent upon the federal government for the maintenance of that illusion. Whatever price the Washington authorities have extracted from us for their support of the banking situation, we have pretty nearly had to give them, no matter how great the error or how great the cost may later be of the political controls they insist on. I spoke in a state that nearly 300 banks had refused to join the FDIC and nothing happened.

Frankly, we have oversold the demand deposit function. That was one result of the wartime inflation, and ever since 1920 we have been paying the price, and we will go on paying the price until some means are found where we are able to stop the demands of the depositors when the accumulation of those demands would mean our financial death and their great financial loss.

Can we ever be independent bankers as long as we must depend upon some outside agency to save us whenever our depositors choose to call our debt to them over any prolonged period of time?

It is my suggestion, therefore, and in line with Mr. Manuel's suggestion perhaps with which you are all familiar, that during the next few years, against the political opinions of their state machines, American bankers should fight this ever growing trend toward making all assets theoretically as good as cash by promising them the rediscount privilege, a vital error in Title II and the FDIC theory, and work toward local and national independence by reducing the power which our depositors today hold over our banks and over the heads of every one of us and you, and the little banking connections that I have they hold it over me.

This can and should be done by changing the deposit contract to a performable one at all times in place of the present open-end demand against the bank, as Mr. Manuel has urged. It should be the privilege of every bank, and the understanding of every depositor, that funds in the savings account and the surplus reserve funds of corporations which are the same as savings, could not be drawn upon at so fast a rate as to impair the bank. Let those who wish to consider their money in the bank as cash keep it in demand accounts, and let bankers keep this demand account money in strictly self-liquidating paper, and by that I do not mean United States bonds or notes. They belong in the savings fund and not in the credit end of the demand liability.

Let the rest of our people, who are making us their trustees in effect in the investment of something like $35,000,000,000 of deposits, so-called, be stopped from expecting as commercial bankers that we will guarantee both the liquidity and the par value of their investment under any conditions. Talk about government guarantee of bank deposits being impossible! We have found out in this country that this degree of banker guarantee of deposits is actually impossible, and because it is impossible, we are forced at every crisis, local or otherwise, to sell another portion of our local banking independence to some outside agency to tide us over. And the price of the rescue is always surrender of some portion of our home rule.

The defense against this line of development is unquestionably the recovery by the banking system of a position where it cannot get caught short. Such a system requires that every cash callable liability be matched by an equally quick asset, and that no demand or short notice deposit, or the so-called savings deposit, be tied up in frozen or slow assets. Since the supply of quick assets is distinctly limited, the rest of the so-called deposit money should be invested under terms which permit liquidation at the discretion of the banker in times of stress.

There is no other practical way out, as I see it. The FDIC does not give us the way out. Consider the amount of capital which you would require for a banking system which would guarantee to liquidate on short notice in time of deflation and depression a $35,000,000,000 investment fund. That is obviously impossible. There would be no income left for those deposits, the income being necessary, of course, to attract the capital necessary to underwrite such a volume of assets.

We are nationally a money-foolish people. We would rather spend our savings in lossful competition during a period of economic readjustment; we would rather draw upon our bank account than to square our business around, or than to face the pains of business readjustment necessity which caused us to lose our profits in the first place. We always think the other fellow will go bankrupt before we do. We always think we will get a job before the bank account runs out. We, as bankers, guarantee to supply an unlimited amount of cash to finance the status quo of affairs which initiated the depression, that is, the losses of the profit margin in business. Our depositors spend instead of accumulate savings until either we go broke or they go broke, and when they go broke, they depend upon the government to borrow from us and to spend other people's savings to keep them going. It is a strange thing, but in this nation we thus prolong our depressions as long as we can afford them, that is as long as our banks will supply the cash, or after our banks are closed, as long as our government will supply either them or us with cash—such fiat currency as our current program of dollar debasement is scattering today to prolong the status quo of farmers, laborers, businessmen, and bankers who cannot do business at a profit without government aid and so-called reflation.

For that national state of mind, I must indict the bankers of the country, since they have assumed to guarantee to the people of the United States that the nation can spend the same money twice, once in times of prosperity, when they are accumulating it, and once in times of depression when they are broke. It is easy to see how this system of servicing savings as cash makes our booms a double bubble and our depressions double trouble.

When we as a nation are making money and saving it, the reinvestment of our savings tremendously exaggerates the boom in capital goods to a point where it is bound to collapse. And then when it does collapse and we are losing money and jobs, it is easy to see how the spending of the same savings deepens the depression and puts an end to capital expenditures. It is equally easy to see how when banks are willing to guarantee to liquidate billions and billions of savings and time fund deposits without limit, come what may, they are setting up an unnaturally powerful force for the inflation of those deposit totals since they are promising to guarantee as cash something which because it is invested in capital goods cannot reproduce cash except by the slow process of sinking fund accumulation out of profits in the field in which the investment is made.

Could there be anything more unstabilizing than the combined effect upon prosperity and depression of our present disposition to guarantee in our banks the

MISCELLANEOUS STATEMENT

American Surety Co. of New York

New York, N. Y.

Organized 1884

A. F. LAFRENTZ, Pres S. C. HEMSTREET, Sec.

Attorney to Accept Service in Minnesota:
COMMISSIONER OF INSURANCE

CASH CAPITAL, $7,500,000.00

Income in 1934

Total Net premiums received	$ 9,095,305.14
From all other sources	1,402,310.23
Total Income	$10,497,615.37
Ledger Assets, Dec. 31, 1933	$26,249,341.88
Sum	$36,746,957.25

Disbursements in 1934

Claims paid (net)	$ 3,561,063.85
Dividends to stockholders, Cash $150,000, Stock	150,000.00
All other disbursements	6,348,379.63
Total Disbursements	$10,059,443.48
Balance	$26,687,513.77

Ledger Assets Dec. 31, 1934

Real Estate	$ 8,300,000.00
Bonds and Stocks	15,293,904.09
Cash in office, Trust Companies and Banks	1,283,840.40
Premiums in course of collection	1,600,197.52
All other Ledger Assets	209,571.76
Total Ledger Assets (as per balance)	$26,687,513.77
Total Non-Ledger Assets	$ 1,774,312.78
Gross Assets	$28,461,826.55
Deduct Assets Not Admitted	$ 6,360,788.63
Total Admitted Assets	$22,101,037.92

Liabilities Dec. 31, 1934

Net unpaid claims except Liability and Workmen's Compensation Claims	$ 3,851,124.49
Reserves for liability and workmen's compensation claims	766,807.55
Unearned premiums	5,710,231.24
All other Liabilities	1,830,197.22
Total Liabilities	$12,158,360.50
Capital stock paid up	$ 7,500,000.00
Surplus as regards policyholders	$ 9,942,677.42

Business in Minnesota in 1934

	Premiums Received	Losses Paid
Auto Liability	$ 7,039.56	$ 1,983.00
Liability other than auto	1,557.36	330.00
Workmen's Compensation	5,843.06	1,696.06
Fidelity	57,238.98	3,356.40
Surety	41,457.15	6,704.66
Plate Glass	* 14.22	39.90
Burglary and Theft	7,273.54	474.49
Automobile property damage	1,870.18	202.65
Auto collision	20.00	....
Property damage and collision, other than auto	218.41	....
Totals	$122,504.02	$ 14,787.16

*Red figures.

State of Minnesota
DEPARTMENT OF INSURANCE

I HEREBY CERTIFY That the Annual Statement of the American Surety Co. of New York for the year ended December 31, 1934, of which the above is an abstract, has been received and filed in this department and duly approved by me.

FRANK YETKA,
Commissioner of Insurance
J. H.

A. E. Adams, Manager
1445 Northwestern Bank Bldg.
Minneapolis, Minnesota

liquidity of all the savings and business reserve funds which the nation can accumulate?

We are either starving or glutting our capital markets under our present system.

Let us consider what would happen to the capital markets today if we could arrange this program of making a major portion of our savings deposits non-callable to the degree that is here suggested, and carrying an interest rate that would make them very attractive in relation to demand deposit accounts or even to 60 day notice accounts. In the first place it would be only a matter of a little time before two things would begin to happen. Depositors would be forced to choose between whether they would carry their so-called cash in banks at no income as demand deposits, or invest it themselves. The resultant percentage of direct investment would be most healthy for the bond and mortgage market.

Secondly, banks would immediately be able to consider legal and sound long term investments, sound risks on which to earn a rate of payment on their savings funds. This would solve the jam, I believe, in the capital goods investment field in a major way. Real money based on sound financing of long term investments with long term funds would become inevitable. For one thing it would make available to the borrowers today long term money and it would take away from them the feeling that in the next depression they would be given the works. If for no other reason, we believe that the development of long-term savings accounts in banks ought to be encouraged because of the sanity which it would restore to the long-term investment market.

Certainly it would make funds available to those borrowers today, and it would protect the same borrowers and markets from deflation during periods of depression, and thus mitigate the worst phases of the depression in this respect.

As a program for stabilizing the general money markets, this idea of savings funds in banks safeguarded from forced liquidation and losses, seems infinitely superior to anything being proposed in Washington today, and it has this beauty, any bank or any state system of banks can inaugurate it by merely changing the contract form of its relations with depositors. Moreover it involves no use of federal credit through the FDIC.

By making such a change, banking can sell its depositors real safety for demand deposits, and really safe, high yielding savings deposits.

The Morris Plan banks, which are admirable in many respects, already, in some states, have such safety contracts with their savings depositors.

In Sweden, the savings system is built around deposits which are payable only on six months notice. Deposits which bear less notice carry only nominal interest rates.

In England, savings are the business of the postal savings system, the savings institutions, the building loan companies, the insurance companies and the investment trusts, and the canny Scotch who run the British banks have not let themselves be tricked by competitive fervor into being the guarantors of the liquidity of the nation's investment and savings account.

Some day, I believe, perhaps with federal recognition that the only way to keep banks from dumping their U. S. bonds on the market will be to freeze savings and time deposits, we shall have a similar safety system in regard to savings in this country.

In New York state, the superintendent of banks has the right to draw that defense line on any bank. You possibly have a similar law, the Moratorium Law.

Then and then only will we be able to say that the American banking system is independent. Then and then only will we be able to call our banks our own and be able to stand four-square with the world when outside interests, either ambitious branch bankers or governmental machinery, tries to encroach upon our freedom of action.

Today the tendency is away from the reality that money invested in long-term bonds, debentures, mortgages, and the like is frozen, and toward the illusion that the federal printing press, under the guise of rediscounting, can turn them all into cash on demand. But that is the road to the greatest fraud which can possibly be worked upon a people's bank depositors, fiat currency, every day more nearly worthless.

The other route, that of trusteed segregation of and blocking of liquidation of savings and time deposits in times of distress, is in exactly the opposite direction. But it is, in my mind, also the road to sanity, sound national economics, sound federal finances, and sound individual banking relations.

And it is inevitable, in my mind, that some time within the next few years, either by federal decree or otherwise, we shall calk up the open seam which sinks banks when they run into the storm seas of depression—the unlimited liquidation of time or slow assets. It is quite unthinkable that the Federal Reserve System will go on rediscounting assets, even government bonds, forever, or that the FDIC can liquidate them any better than we ourselves.

And when they stop it will be another banking holiday and the reasons for it will be the same as those of the last one, the inability to liquidate assets as fast as depositors call for them. Again the lesson will be brought home which President Roosevelt recited in 1933, when he told the nation over the radio that depositors could not all withdraw their money from the banks without limit. Why not have that in the contract now? I thank you.

* * *

CHAIRMAN FOUQUETTE: On behalf of the association, Mr. Axford, I thank you for your presentation of the subject: "Independent Banking." We have enjoyed your interesting talk very much.

The next speaker is going to present a subject that I think we all have heard considerable about, but it is a subject that presents circumstances that usually exist in quantities that are usually insufficient or else the quantities are too large. The subject is "Liquidity." I think it is our good fortune indeed to have the next speaker talk to you on this subject. He has asked that the audience prepare to ask questions following the termination of his talk. It is a pleasure for me now to introduce to you Dr. Melchior Palyi, of the University of Chicago. Dr. Palyi is a former officer of the Reichbank, the German central bank, and the economist of the Deutsche Bank, Berlin. Dr. Palyi!

Liquidity

By Dr. Melchior Palyi

It is rather embarrassing to speak at this time on problems of liquidity to bankers, for by this time they ought to know all about it. It is a somewhat similar situation to the story of the famous old Scotchman, who felt that he was dying and called his son to his bed and told him his last advice, and his most important advice: to be honest, never to deceive anybody, to do decent business, and he said: "Believe me, my son, I know. I tried it both ways."

Similarly, bankers by this time know everything about liquidity, since they have tried it both ways and there is nothing new, especially that an outsider could say about it. However, someone with international experience might be permitted to reflect about some of his experiences and some of his studies on this subject.

We are living in a period of revolutionary thought all over the world, and the countries in which the social structure and the political system did not change, or did not change visibly, are inclined not to realize what the revolutionary tendencies are that are sweeping the whole world and their own countries, and especially in the financial field. You will find in every country, which witnesses a visible banking crisis, that something is going on to change the entire banking structure; some movement in most countries similar to the American change, in most countries which had a major banking crisis.

This is a movement based on the idea —on the very revolutionary idea—that banks are the main source of money, of the supply of money, in every country, and that this source of supply of money should not be left in control of the public, should not be left to the individual banker, or organization of bankers today to do with as they like. Until very recently, there was very little discussion about it, except among theorists; but there was no discussion, no question about it practically among practicians, among business men, or politicians that the bank is the control element of credit. Control of the banks is not denied the capitalist, but they have denied it to the socialist. Since the World War, and starting in the United States, and starting more precisely in the Mid-West, a new trend of thought has swept the world, that is, that the banks are the real source in the sense that they do not regulate the changes of demand for credit, but that they somehow, by some process, create and destroy money as they please.

The economists who investigated this story believe in government or other control of the monetary supply. They believe that the old mechanism changes according to which changes of demand for money automatically, so to say, make the banker give more or less money is wrong. We believe that the banker is ultimately responsible for inflations and deflations of the credit structure and that he is, of course, not being conscious of his job and not being interested in anything but his own profit and is not the right person to control the monetary system of the country and, consequently, the right person, who does not do it for profit, who does it for the nation's sake, is the right person to do it. There you have the quintessence of the kind of preaching about the banking problem, which is being expressed today, particularly being stressed in the Banking Law of 1935 before the Congress.

It is worth while to realize this fundamental issue and not to dismiss it too lightly and to say it is not in accordance with our experience. I think it is very useful and important to take out of the picture, as a previous speaker did, the savings deposits and time deposits, which are not used for payments or for checking or other forms of payment. So far as they are time deposits they are not part of the monetary system and they are accordingly different from the other deposits. The volume of demand deposits is 10 or 12 times in every country, especially ours, but except in France, in Holland, and in the gold block countries, about 10 times the volume of money in circulation.

DR. MELCHIOR PALYI

Permit me to make this remark incidentally, that it happens that for very good reasons the only countries remaining on the gold standard are those in which credit expansion did not take place—the denominations of money times the volume of gold or volume of strictly cash in the country. The total volume in France is some 70,000,000,000 French francs and the total volume of franc deposits or demand deposits is 40,000,000,000. Just the opposite ratio, of course, to the American or the British, and somewhat similarly in Holland. Also it is very interesting that those countries had no banking crisis to amount to anything, and few banks fell in France and in Holland, but the whole system has not been under a major attack—none on the demand deposits. It has a liquid bank structure and the liquidity of the banking structure is the first condition and the most important of staying on the gold standard. Few politicians seem to realize that nowadays. Old countries which went off gold, or coined a new monetary system, like Germany, had great difficulties with their banking structures, including England. In England the run on the banks was not so visible, because it was not an external run. The Bank of England had to go off gold because the banks would not have been able to supply the correspondent banks.

Everywhere the gold standard is tied up with the liquid banking structure and the gold standard in the deposits is a non-liquid banking structure. But this is just an incidental remark.

To get back to our problem. The problem is, I think, very well put in the recent discussion on this country. One asks the difference between quality control of credit and quantity control of credit. Quality control is the one the banker is supposed to employ, choosing between long term and short term assets, good assets and bad assets, discriminating, in other words, between enough assets, quantity, and good assets, quality. This is similar to the difference in the philosophy of Curran and the philosophy of Washington on this subject. The quantity control idea is that quality choice does not mean a thing. Experience is supposed to show bankers how to expand credit in good times and deny credit in other times. Not a case of quality; only quantity. If there is much credit becoming available everything is liquid; everything looks good. If the banks contract their credit volume there is no market, since their demand buyers, or, rather the depositors, are changing their credit and are borrowing. Consequently their value falls and so the quality of credit is a consequence, according to this preaching, to the volume changes, not vice versa.

What we have to realize is that the closer relation runs just the opposite way. True a credit system can be constructed in which there is no choice of quality of assets. Even the most radical of the New Dealers do not dare to come out and say that it makes no difference about your assets. You have to have assets. Even the most radical ones among the New Deal banking philosophers like to talk in terms of "working capital" provisions, and that it should be only along the lines of solid credit and good assets.

Nobody dares to deny the quality aspect. But the fundamental idea is that quality is not important; it is only quantity. The fundamental error is visible, if one realizes two things: The one is that actually the choice according to qualitative standards differs as to the volume of credit. Liquidity does not mean hold of cash. That is a minor aspect of liquidity. Liquidity means the choice of the banker as to what he thinks are the proper investments for his money; incidentally, no liability for his deposits, but for the cash and balances with other banks and due from other banks, of which he can dispose. The problem, therefore, is to regulate the choice of quality so as to have resulting regulation of the quantity of credit.

The second point is that credit policy which does not care for the quality of credit but concentrates on the quantity is practically impossible. It would lead to the very thing which it is supposed to avoid—crisis. Suppose the government should succeed in putting into the American banking system a regulation, which is suggested, according to which government-controlled Federal Reserve System is ready to re-discount almost anything, and gradually persuades banks accordingly, agreeing to act accordingly, that is, to go into the hole, mortgage credit, relying upon the discount facilities at the central bank, go into the hole on long term industrial — in other words, your ideas of primary and secondary liquidity, according to practice for 100 years in this country and for 200 years in Europe—what would happen? Almost unlimited credit and expansion of credit!

The government says we have, however, in our hands the control of this amendment. They say that we need not go any further than we want to go. We can inflate to the extent of 10, 20, 30, 50 per cent, and then we will stop when prices rise too much. It will be a controlled currency, a managed inflation. But can we control it? It is exactly the same kind of a question that one would have if one spent more than one earned; one could not contract any more. The other essence of a crisis is that a banking system which is over-expanded, tries to contract, to get away from the first expansion, and fails, because it is impossible to contract the over-expanded credit structure except by a crash. Every attempt of this kind must fail because you cannot simply liquidate and expand prices. You cannot even stop it, so how can you control it? The very essence of the meaning of liquid credit is that you don't need to give more money into the same enterprise, that you can stop the credit expansion, that it liquidates itself.

The meaning of an illiquid system is that you cannot stop it, that when the capital invested is gone you must put more money on the same illiquidity. You must put good money after the bad, so as to keep the bad money going, or apparently going. There is no way of stopping the credit inflation, which illiquidity means, because the credit expansion means that all sorts of commitments have been made, longer investments have been started, and that capital goods have been stimulated in the bargain. You cannot stop building a house in the midst of it without ruining the whole value of the whole house.

The same is true of any other sort of thing termed "capital structure" of any sort of fixed capital structure. It is not a matter of mere quantity control. In other words, the control of quantities is only possible in the eyes of those who do not know the history and have no practical experience with controlled credit. They do not know that controlled credit is a very difficult job. It is very easy to spend money. The difficult part is to stop the spending of money.

Credit control on purely quantity lines, disregarding the quality, is impossible; without credit, new crash, new crisis. Credit control is superfluous if quality is going down. The quality control on the part of the banks means that they do not over-expand. They only expand credit according to the demand for goods. This is the very essense of liquidity from the social point of view.

It is important, very important, to realize that the old-time banker who thought he could go on doing business, trying to maintain a reasonable cash liquidity, will have to go to liquidity and to credit control, has done all he knows about it, that this old-time banker will not survive; perhaps the whole banking structure will not survive. The economic problems involved are such that the banker must take care of the aspects in which he does not have an interest. He must think in terms of what will be the later consequence. For instance, if he goes into government securities, which are eligible for discount at the Federal Reserve, he must realize that if everybody does it, the Federal Reserve will be unable to rediscount those when the price of government paper will fall, and it will fall some day.

The moment the business cycle turns up interest will rise and government paper will fall, more or less, and if the banker does not want to carry the loss, such as the banking system had to carry between 1900 and 1914, when about a third of their assets had been invested around and after 1900 in government securities, which depreciated in 14 years by about 10 per cent, not because the credit of the United States government was bad—it was excellent—but because it was a period of rising stock prices; then the banker must think in terms not of what he wants to do, not of what other bankers will do, but what the policy of the banks will be in the light of such statistical and economic data as are then available to him.

The best managed banks of the world lost on the best investments of the world, namely the British. We thought they were the safest banks in the world.

Quantity control, I think, is underlying the philosophy of the present banking New Deal and is, I think, an illusion. If carried out we will learn its illusion.

There is no other way for the business man to do under the quantity of credit. How can you control credit, especially in the major banking house? How can you decide which business is good and which is bad? When is a long term credit good or bad? How can one, as a banker, know everyone and everything about the details of each business with which he has to do? After all, human knowledge is frail; the greater the bank the less one's ability to check on the debtor. This is a very important point in the problem of the survival of the smaller banks. It is generally known, that the failure of the country banks—the smaller country banks—was largely responsible for the breakdown of the banking structure in this crisis. I do not think that history supports this opinion satisfactorily. I do not intend to take issue on the side of the small country banks which are badly managed but there is no doubt but there is a great deal of it existing.

The 7th Federal Reserve shows a great deal of illiquidity in country banks and that large city banks are more easily liquidated than country. Experience of 200 years shows that big banks are just as bound to get into trouble as small ones and sometimes more so. Continental experience, especially Middle Europe, shows big banks getting into trouble, rather than the small ones.

The growth of banking has its dangers, just as much as there are dangers in the existence of short, small units. I do not think the question of unit banks versus branch banks can be solved on these lines. There are many arguments on both sides, which will be solved in the course of history, I have no doubt. Those in unit banks have to do only with maintaining liquidity, then the unit will survive. Never in history has any bank been wiped out if it was good. They were only wiped out if they were in trouble. There will be a point after which they cannot do any more. They are highly respected members of the local and national unit if they don't fall.

But to get back to my subject, which will bring it to an end. The quantitative theory originated from the Mid-West, sweeping the whole world. I did not know until recently myself that the Mid-West originated this theory of credit which is worrying this country and many other countries right now. This is not the only dangerous story from the point of view of the banker. Old timers used to be believers in laissez faire, but laissez faire has its dangers, too. That sort of thing argues "Let the bankers do what they please; they are business men and business men are reasonably able to take care of themselves. If they are not reasonably able to take care of themselves, then they won't be in business long." Of course that is not always true.

The reasonable one is the only one that would not do anything wrong to hurt anyone; has no special interests; he never speculates, because he knows by experience that speculation is a dangerous thing. If he does he will fail. Therefore, the clever ones will survive. Of course, experience shows that bankers are not always like that. They sometimes speculate; they sometimes incur bad results. Of course that is corrected afterwards by a crisis we want to avoid. There is little consolation in saying that we eliminate that because it costs too much. We would rather not get into that point at all. Therefore, this laissez faire advocate argues now to let the central bank do the job of controlling, the banks go on their own way as they please, let the central bank control the money literally by raising and lowering the discount rate. That is a sort of false belief that the central bank controls the individual bank by regulating the interest rate and some open market relations and pious announcements that then nothing can happen—minor fluctuations but no major danger. This sort of fellow argues that the Federal Reserve should not have lowered its interest rate in 1927 and that then the whole stock market crash would not have happened.

But this whole argument means putting the cart before the horse. It means to overlook the real fundamentals of the situation. Suppose the Federal Reserve would have acted accordingly, and had understood what was going on—as few banks did understand—even so, could it have stopped speculation? Could a raise of the interest rate to 5 or 6 per cent have changed the situation? All it would have done was to attract more gold to the United States, make the banks more liquid, in terms of liquid reserve, more free to expand without regard to the rediscount rate of the Federal Reserve.

Probably a severe contracting policy of the Reserve might have stopped an amount of speculation, but it would have carried England and Europe into a crisis, and this crisis would have reacted on America. Nobody can make a good argument, or make it believable, that that would have been sufficient to stop the whole speculative era. The year 1927 might have been much too late. The peak of the boom was over in 1926. The action of the Federal Reserve should have started much earlier. At the time nobody could foresee how far things would go, in spite of all statistics and all too complicated elements of the possibility of action in the part of the Central Bank on a money market which is sufficiently supplied with gold. Of course the Central Bank in Europe before the War and in Germany after the War, these nations, lacking gold, was a source of supply to the banks. In such countries it is much more possible to control the Central banks than in England, France and the United States, where the Central Bank is in normal times just a minor conditional source of credit.

In other words the laissez faire idea to control the business side is a very naive idea. In view of all the experience of this generation and of previous generations, in spite of the political factors interested, everybody knows how difficult it is for Central Banks to carry out their ideas if they are not credit institutions managed by a high tribunal of gentlemen. We are exposed to public opinion in different forms it might take and, therefore, even disregarding all other inhibitions and mere politics, would violate the policy which would attempt to control an upgoing cycle. Both ways are insufficient, or wrong.

The idea of quantity control is wrong. It is misleading; it is mischievous in the sense that it would be carried out by the government raising the requirements —the cash requirement with the bank— to such an extent as to compel them to do what the government wanted. The government might raise the requirement to 100 per cent of the deposits; it is enough to compel them to pay 50 per cent, or compel them to go out of business unless they follow it. But whatever method is carried out, it would lead to a dangerous — a very dangerous — experiment. Relying upon the wisdom of the Central Bank about the deposit is very dangerous, as experience and sound reasoning shows, because it overlooks something which exists, which is very important. But in a community as a whole this might be offset for a while by other forces of speculative threats.

It takes more than human ability for a community as a whole to understand in a government situation which follows which. Such knowledge is available to but a very few and those who seem to have that knowledge would rather spend than actually enjoy, and never can seem to control it until it is too late. Consequently what we need in this complicated modern world is the maintenance of the laissez faire in the sense of quality control by banks, behind which is a form of control which permits the community to get rid in bad times of undue credit expansion which helps credit expansion in good times.

It makes no difference whether the credit expansion is done by the speculators of live issues, because people believe in the productivity of speculative investments on a large scale, or whether the speculation is done by the government, or a combination of the two. I would like to remind the bankers who are 100 years or older, of the crisis of 1837, which is very similar to the present. Prior to 1837, the United States had a great expansion. It was an era of improvements. They were proposed by business men, financed by government bonds, and long and short term bonds of state governments, but they did not make things any better. The crisis came because states expanded in competition with each other, with the sole exception of one state in the East, and the improvements, or the so-called "improvements," turned out to be good investments, but they were not good in the lifetime of the people who invested their money. People will make a run on the bank even if they think that in 50 years from now the bank will be good, but who can prove it?

What we have now in this country is a credit expansion and an "improvement" system, to use the same term, just similar to that of the 1830's, 100 years ago, not financed by the states but financed by the federal government; financed on short and long term, government credit. However, in the 1830's the American politicians, who were mislead by Mr. Biddle, had the excuse that the whole community believed in the productivity of their plans, and they were wrong in the long run. However, now the government does not always suggest that it is productive, they suggest that it is self-liquid. So few are inclined to believe that, though. Now the communities do not cooperate; it is the government that does it alone, all of which makes it rather of shorter duration than it was in the '30's, provided it is not stopped by the pressure of public opinion.

And now to say the last word about my subject. Of course all of this has very little to do with the present sorrows of the American banker. He knows illiquid investments are bad, but he has to earn money; otherwise he cannot maintain his bank. The most important aspect of liquidity from the point of view of the banker is the earning power of the bank. It is not a matter of ratio, of net worth to liabilities or self-liquid credit, or what not. The fundamental question is whether the bank is going to earn money or not.

Earning power is a wrong point of view, just as it is a wrong policy to go into more expansion for more earnings at a time when you will have to pour good money after bad. If it does not last too long, the banks ought to be conscious that the burden of reduced earning capacity in liquid operating is a burden which they are bound to carry if they want to get into another period of sound and sufficient earning power without going into the dangers of illiquidity. In other words, try to see this as much as possible by looking into the future to the great possibilities which the future offers to liquid banking systems. The upturn of the trend is only possible if that policy is liquid. It allows us to evade the danger of a breakdown.

An upturn is bound to come on the basis of a liquid credit structure. Unfortunately at the present everybody is talking about the upturn in business but nobody believes in it, or seems to believe in it. If the people believed in it, it would come faster and you would have a liquid banking structure immediately. Second, I mentioned at the beginning, the banker has to realize that he is living in a new world, a world with revolutionary ideas, and he has to accept them. He has to realize then, in effect, that we have a government and public opinion which carries government into a major amount of interference with business and banking and that it has many-fold consequences for the individual bank, and that therefore every individual bank has to follow closely what happens in the field of general policy and general economic development and to adapt his policy accordingly. Certainly the most important feature in the extreme liquid situation is that extreme liquidity does not come simply from the asset side.

Good investments have good assets but it comes as well from the liability side, i.e., from the depositors. In a period of extreme liquidity the bankers have to do their best not to attract more deposits than naturally would flow to them and not to try to expand on the deposits' side when there is little or no possibility for expansion on the assets' side.

Problems like the one before you lower the interest rates on savings deposits except in those cases where there is no premise of liquidation involved in the deposits. Similarly, methods raising the service fees are all very good because they have the proper result of keeping cash away from the bank—that amount of cash which cannot be used—and properly that cash will flow into other channels. It might temporarily be kept in safety deposit boxes; it will flow into other channels, so as to make new investments on the part of bankers possible so as to contribute in the direction of profit.

Those are a few remarks from an historian's point of view. I beg to apologize for having dared to try to teach bankers about a subject that they know far too much about at present. The only excuse for this attempt is that I was not only invited to do so but also sometimes reflections from a person with practical experience plus the experience of an historian's point of view might have some good results in the sense of stimulating thought. (Applause)

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CHAIRMAN FOUQUETTE: I feel that we have greatly enjoyed the presentation of Dr. Palyi and we will take every advantage of his presence by asking him some questions. If you have any questions to ask, kindly do so at this time. Dr. Palyi, it appears that your talk was so complete that they do not find it necessary to ask any questions as you must have answered all that came into their minds. I thank you very much, indeed, for your kindness in coming here and giving us this talk. On behalf of the association, I thank you. And now, gentlemen, Secretary Duncan has some remarks to make at this time.

SECRETARY DUNCAN: About two hours ago I received a telephone call from President Hecht of the American Bankers Association in Washington. He sent the greetings of the American Bankers Association to this convention. I do not think you are so much interested in that but he did go into detail, to a great extent, in explaining what is happening and what happened in the late hours of yesterday relative to the 1935 Banking Act. Although he could not speak officially, he consented to allow me to elaborate from the things that he said, because I know that they are of vital concern to you and you have been disturbed as to what is going to happen before July 1.

He said that the situation politically is still important, that agreements have been made with the administration relative to certain objectionable features in Title II. No bargain could be made at this time as to whether or not Title I would be passed and become a law prior to July 1, at which time the permanent fund under the 1933 act goes into effect, but if a proper solution of Title II could not be arrived at prior to July 1, 1935, do not be disturbed upon the receipt of the necessary blanks that the Federal Deposit Insurance Corp. has mailed, in which you are supposed to make application to enter into the permanent fund under the 1933 law, because it is quite generally agreed to between people who have something to say about this legislation that prior to July 1 if Title I has not been passed, a resolution will be introduced in both the House and the Senate extending the fund under Title I for a satisfactory period of time. This was accomplished as far as officers' loans are concerned, relieving a very unsatisfactory situation at the time the resolution was introduced.

They expect that the final report of the sub-committee will go out the latter part of this week or the first of next week. He said to impress upon the minds of you men to not be disturbed about Title I, because some solution of the unsatisfactory situation will be arrived at.

I am sure that this news coming to you at this time will relieve you considerably. No program would be satisfactory from the standpoint of the secretary of an organization unless somebody threw a monkey wrench into the machinery and an eleventh hour readjustment would be necessary. That has happened to us. Weather conditions made it impossible for certain speakers from Washington to fly from Chicago this morning, consequently it was necessary for us to change our afternoon speakers of today to the morning session. We have assurance, however, that one speaker will be here at 2 o'clock and the other one is on his way by train, and if he cannot arrive in time to participate in the program this afternoon, it will probably be necessary to shove some of the program for tomorrow up to this afternoon.

I know that you have been interested in expecting to hear Chairman Crowley and Senator Clark. I received two telephone calls from Washington yesterday that were not entirely satisfactory to me, owing to the fact that it was necessary to cancel the engagements of both of these men, but they are sending in Mr. Crowley's place Marshall Diggs, who is the representative of Comptroller of the Currency O'Connor in the FDIC. He will be here at 2 o'clock.

On account of a very serious situation existing in the Senate, some of the leaders insisted upon Senator Clark remaining in Washington, because he has the reputation of knowing more about parliamentary procedure than any man in the Senate. In his place Congressman Tolan of California will appear. You will be interested to know that Congressman Tolan was formerly a Minnesota boy, and was associated with Governor Johnson many years ago. He comes to us highly recommended as a speaker, and I hope you will remain to hear him tomorrow morning, even though it may be necessary to switch him to another part of the program. We will adjourn now until 2 o'clock this afternoon.

WEDNESDAY AFTERNOON SESSION, JUNE 19

The afternoon session opened at 1:30 o'clock with President Fouquette presiding.

CHAIRMAN FOUQUETTE: This afternoon we are to have the pleasure of hearing J. Warren Stehman, Professor of Finance, University of Minnesota, speak on "An Analysis of the Banking Bill Pending in Congress." It is my very great pleasure to present Professor Stehman to you at this time. Mr. Stehman!

PROF. J. WARREN STEHMAN: Thank you, Mr. Chairman. Gentlemen: I am talking under the handicap of not knowing exactly what changes may have been made in the House or Senate bills during the last few days, although I have reason to believe that there has been little material revision.

An Analysis of Banking Bill Pending in Congress

By J. Warren Stehman

The bill which is to be known as the Banking Act of 1935 is divided into three parts, under three separate titles.

Title I merely provides some amendments dealing with the permanent Federal Deposit Insurance Corp. The funds from the temporary plan pass over to the permanent corporation immediately if this act passes.

Title III consists of technical amendments designed to clarify various laws. They concern matters about which there is little dispute.

Title II provides for changes in the Federal Reserve system and its relation to the government. This is the section which has given rise to the greatest amount of discussion and I will confine my remarks to this portion of the act.

To understand the bill it is desirable to give a few minutes to a consideration of the objectives sought by its sponsors. The outstanding aim, it seems to me, is to provide better federal control of money and credit policy. President Roosevelt and Governor Eccles are both reported to have declared that laissez faire in banking is incompatible with attaining business stability. Governor Eccles says that the idea that the government is on one side and banks on the other, more or less equal, is fallacious and out of date. The government must map the course and take the lead. The intention then is to give the government as complete a control over credit and currency as if it owned the Federal Reserve system.

At present the Federal Reserve Board, according to Mr. Eccles, is responsible for monetary politics but lacks clear authority for determining them. This act is to provide such power and it is essential that it be done now to prevent recovery developing undesirable inflation which would mean another depression at an early date. To control policies it is desirable to have a unified system insofar as it is possible. This bill, Mr. Eccles says, would not force unification but facilitate it.

A second aim is to make the banking system more responsive to present and future business needs. Particularly to prevent a recurrence of the banking collapse of 1933.

Third, some members of Congress, such as Mr. Goldsborough, and some supporters not members of Congress aim at price stability through Federal Reserve action. Stating their case roughly, it is that we can have the same price level year after year merely by taking some action regarding the amount of money and credit in circulation. I think the President and Mr. Eccles are not so ambitious as that.

Fourth, Governor Eccles has stated as a further objective—the acceleration of the rate of business recovery. I can see nothing to that so far as Title II is concerned although it may apply to Titles I and III. This fact is the basis of a determined effort by several groups to force postponement of action on Title II. It involves changes of policy which should not be taken hurriedly. More study of the probable effects of its enactment is desirable and there is much support for the creation of a monetary commission for this purpose.

Turning now to the various provisions of Title II through which these ends are to be achieved. Considering first the changes in the management of the Federal Reserve banks. The offices of chairman of the board and governor of each bank are to be combined. Appointments are to be made annually by the directors of each bank but with the approval of the Federal Reserve Board. The vice governor is to be appointed in the same way.

Under the existing situation the Federal Reserve agent who is now chairman, is appointed by the Federal Reserve Board. The governor is elected by the bank's directors. The latter office was not provided for in the original legislation. The proposed arrangement with its required approval of the Federal Reserve Board would keep that official under the control of the board, of course, but not much difference from the present. The office of agent is to be discontinued. The Federal Reserve Bank directors except for the governor and vice governor may not hold office for more than six consecutive years.

The Federal Reserve Board changes are more important. The geographical qualifications would no longer be required for membership upon the theory that each member shall have a national viewpoint. They are to be individuals with the necessary education or experience or both to enable them to help formulate national economic and monetary policies.

The board would still have eight members which are probably more than necessary. It would still include the secretary of the Treasury and the comptroller of the currency. The governor is to be appointed by the President for an indefinite period — terminable by the President. The Senate bill removes him from the board when he ceases to be governor. The House bill leaves him on the board but provides the bait of permission to return immediately to private banking if he resigns. If he is an outstanding man, I assume he will resign.

This arrangement provides that three members are definitely tied up with the government and therefore give the government a great amount of influence in determining policies. It is this arrangement which has furnished foundation for the criticism that this is not merely federal control but political control in which the party in power may unduly press its monetary theories upon the banking system. It is presumed to mean less independent scientific approach to money and credit policies. I might put it this way—whether or not you approve of this close control depends upon the amount of confidence you have in the party in power at any particular time.

For example—I should feel safer if I were sure that control would never be in the hands of that group who think that business can be revived by issuing more money.

The Senate bill provides for increased salaries—$15,000—with compulsory retirement at 70 with a $12,000 annual retirement allowance. The object is to make the Federal Reserve Board more like the supreme court. Thus it is hoped that we may secure capable men who will consider questions disassociated from self-interest and also reduce the influence of aggressive minorities. I think this is desirable and I am sorry that it appears to be out of the House bill at present.

We turn next to a consideration of the instruments of credit control. At present there is an open-market committee of twelve representing the various banks and whose findings and recommendations are not binding upon the banks. The new provision is for an open market committee of five. Under the Senate bill the five would consist of the governor of the Federal Reserve Board, two board members chosen annually by the board and two bank governors chosen annually by the governors of the 12 banks. In the

House bill all five are to be governors chosen by the 12 governors. Since the governors are originally chosen for their positions with the approval of the Federal Reserve Board this committee under either bill would be completely dominated by the Federal Reserve Board.

The committee is to make recommendations as to discount rates and open-market operations for the whole system. Their recommendations are to the Federal Reserve Board and if adopted shall be binding upon all Federal Reserve banks. While it has generally been felt that the board now possesses this power there could be no question of it with this section enacted into law. There can be no doubt as to the hopes of the sponsors of this section. And, indeed, it seems clear to us that raising of discount rates and absorbing surplus funds by selling widely on the open market can curtail credit and be a factor in checking business activity. It is not clear, however, as some of the sponsors believe, that the reverse action — reducing discount rates and building up bank reserves—can stimulate business activity.

To facilitate rediscounting we get a new definition of eligible paper. Any sound assets and any maturities are to be eligible for rediscounting, subject to regulations laid down by the Federal Reserve Board. Any United States government securities or any guaranteed by the United States are eligible without limit as to maturities.

The defenders of this increased freedom for managerial judgment state that less attention is to be given to form and more to soundness. It is not clear to me how this is achieved. The particular paper is still to be chosen by the Federal Reserve banks which did the choosing before.

One reason for the change is to encourage smaller banks, which have little eligible paper under the old definition, to join the system.

Probably another reason is the fact that during depressions there has not been a great amount of eligible paper under the present ruling. It might be added that there has also been little need for rediscounting. However, from the viewpoint of men who consider it desirable to be in a position to influence at all times the amount of bank reserves it would seem necessary to increase the supply of eligible paper.

Reserve requirements for member banks may be changed by the Federal Reserve Board. This applies to any class of city and for either demand or time deposits. This is another provision which can not mean much in depression. The present reserves for banks as a whole are about twice the present legal requirements. Consequently reducing the legal requirements at such a time would hardly cause greater lending. However, an order, in certain periods of business expansion, greatly increasing the required reserves would have a great effect in checking loans; provided always, of course, that anybody had the courage at such a time to issue such an order.

To issue notes with greater ease it is provided that no specific security is to be required except the 40 per cent gold reserve and this makes possible the abolition of the office of Federal Reserve Agent.

It is contended that there is no more need for special security for notes than for deposits. They are still a first lien upon the bank's assets and so any criticism is not upon the question of security but upon control of the quantity.

The bill appears to do away with existing redemption provisions designed to speed retirement when not needed and even allows one bank to pay out notes of another. Under the present law—except for the emergency legislation which permits government bonds to be used as security—there exists pressure to retire Federal Reserve notes when commercial paper declines and the money is no longer needed for business.

The 40 per cent gold reserve requirement is some limit, of course, but not under existing conditions where we have about $8,700,000,000 of gold in comparison to a little more than $3,000,000,000 of Federal Reserve notes.

Perhaps the greatest danger here is in connection with the use of the Reserve banks to finance government deficits. There are liberal provisions for the purchase of government issues either direct or on the open market. The Federal Reserve Board will have members strongly interested in supporting any government policy. Central banks were the instruments used by a number of countries for financing their governments to the point of wild inflation. Furthermore, it leaves the banks in a poorer condition to perform their primary function—financing of business.

To increase membership in the Federal Reserve system and thus help to achieve the aim of a unified system the bill provides that the Federal Reserve Board may admit any insured non-member bank to membership in the system and may waive capital requirements for admission if the bank complies with all the regular requirements of members.

The final section to which I shall refer concerns real estate loans. They may be permitted on an amortization basis for 20 years on first mortgages to 60 per cent or 75 per cent of the value of the property. The aggregate amount of real estate loans plus other real estate owned (except bank premises) is limited to 60 per cent of time deposits or 100 per cent of capital and surplus — whichever is greater.

May I remind you that national banks were not permitted to make any real estate loans from the creation of the system until 1913. Since then, except for the banks located in central Reserve cities, five-year loans up to 50 per cent of the value of the property were permitted. Each bank, however, was limited to a total of 25 per cent of its capital and surplus or one-third of its time deposits.

While I approve the amortization feature of the proposed change there is nothing else about our history of real estate mortgages in commercial banks which awakens any enthusiasm on my part for this greater freedom. Under the law it would even be possible for the Federal Reserve Board to permit the Reserve banks to make advances on these mortgages.

Governor Eccles has argued that this section is necessary to enable banks to keep the $10,000,000,000 of time deposits which they now have. If this is not permitted he says they will be encouraged to buy government bonds when they should be helping the local community.

A brief summary of this act and its intentions seems to be this: It aims to put much more discretionary power into the hands of a group responsible for our national monetary and credit policy. I have always contended that, in the control of an institution, management is more important than specific statutes—that you can not substitute a law for judgment. That attitude assumes, however, that the judgment must be good and must be free from pressure from self-interested groups.

Whether one believes that the type of arrangement provided for here will bring to office, efficient, far-sighted men; capable of independent thought and able to survive political pressure will determine for him whether or not he suggorts this bill.

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CHAIRMAN FOUQUETTE: Thank you, Mr. Stehman, for your very interesting talk, I am sure we all enjoyed it very much. The speaker at this time is going to talk to us on the subject, "The FDIC."

The FDIC has the general support and sanction of the rank and file of the citizens in this country. The bankers are not all agreed as to the desirability of banking under the FDIC, but it seems that more and more of the bankers are coming to be favorable and friendly towards that institution. It is certainly an opportunity for us this afternoon, to hear the gentleman who will speak to us on this subject, and it is a pleasure for me to present to you Mr. Marshall Diggs, Assistant to Mr. O'Connor, Comptroller of the Currency. Mr. Diggs!

The FDIC

By Marshall Diggs

It has been quite a struggle getting here. We left Washington last night, with the temperature around 95 and when we landed in Pittsburgh we had gone through several storms. We were delayed getting into Chicago, and this morning they woke us up at six and said that we were going to get out before seven and would get here at eleven thirty. We bucked head winds all the way in here, so you really would think I had a real desire to get here. It has been a desire on my part to come back into Minnesota and to talk to the bankers of this state. I lived in Minneapolis for about a year just before the war, and if the war had not come on probably I would have been on your relief rolls now.

Things are happening very rapidly in Washington these days, particularly in regard to the Banking Act, and the bill that I know you are so much interested in. It is for that reason Mr. Crowley, our chairman of the board, who was on your program, could not leave Washington to be here with you today. He wished me to extend to you his sincere regrets over not being present. He really wanted to be here.

I wish to tell you something of the work they are doing just now and if I may talk, as we get accustomed to saying down there, absolutely off the record, because I have no prepared subject and I am here to talk to you about things as I have seen them, I will touch on Deposit Insurance, as we know it down there for having worked with it for a year and a half; so I am talking off the record and I want you to take it that way.

As you know the Banking Act of 1935 is favored by some people and there seems to be very little opposition to Titles I and III, and these two Titles are the ones which I am particularly interested in because of my association not only with the Federal Deposit Insurance Corporation but the Comptroller's office. Title II has to do with the Federal Reserve and I have no connection with the Federal Reserve. That seems to be the stormy part of the bill and there have been bankers down there and many others opposing it. Some members of the Senate are opposed to it, and we have been held back in the passing of Titles I and III by those who were determined to beat Title II. At least that is the way it seems to me.

Within the last forty-eight hours there has been real progress made in either removing some of the parts of Title II that might be objectionable to the bankers or dividing the bill and passing at least Title I within a week.

Now the question comes to us in the Federal Deposit Insurance Corporation as to whether, if it is passed within the week, that we can get the job done of setting up a permanent fund under the new bill because you know it provided thirty days notice, among other things, which we should have had, and we should have had more time. Not wishing to be caught —there is a permanent insurance law on the books, as you know—forms were sent out to the banks that were members of our corporation. All of them left our office by noon on Sunday, asking you to subscribe to the class A stock. That is the law at the present time and our corporation, of course, had to carry out the law as it is on the statute books.

I do not feel that it is anything to be disturbed about, that is, the forms you have, because there is every indication in Washington that Title I will eventually be passed in about the form it is now in, and some of you probably may be interested in two or three things, particularly that part which has to do with membership in the Federal Reserve Banks, because I know there are some four hundred and twenty-four banks in Minnesota that are not members of the Federal Reserve System, which are members of our corporation.

MARSHALL DIGGS

The House bill, as you know, provided that it was not necessary for you to become members of the Federal Reserve System to stay in the Federal Deposit Insurance Corporation. In the Senate bill—and this is absolutely off the record—I do not think it has been given to the public yet—there has been a move made to limit those who will become members to banks with a million dollars deposits, and they are not to require the smaller banks to become members. That seems to have been in the minds of some of those in the Senate. Just what is going to happen, I think no one knows because when it goes into free conference, Henry Steagall and his House committee may stand out for the provisions of the House bill, or it may come out on a compromise to extending the time to 1940 or 1942. I think that Henry Steagall had the idea in his mind that Senator Glass, who seems to promote the membership in the Federal Reserve, won't live to 1940 or 1942. That part of it is a controversial matter.

The other part which interests primarily the larger banks is the assessment or the premium which you will pay for insurance. The House raised the bill to one-eighth of one per cent on the total deposits. The Senate bill provides for one-twelfth, the amount which our corporation recommended to Congress that the assessment be placed at. We feel that is the minimum amount that we should receive and, incidentally, on the one-twelfth of one per cent, 13,300 banks will pay less than they paid on one-fourth of one per cent on the insured deposits, while 800 banks will pay more than they pay on the one-quarter of one per cent of the insured deposits, as compared to one-twelfth of the total deposits. So that the majority of the banks in this state and throughout the nation will benefit by the placing of the total of the amount on the total deposits as compared to the insured deposits.

You may be interested also to know that 70 banks in the country will pay 35 per cent of the insurance premiums. Some people have asked why should it be placed, that total amount, on the big banks. Why should the big banks be more or less penalized or pay more than what some might feel is their share. I look at it this way: that it would be very difficult to have a big bank if you didn't have a lot of little banks, because the smaller banks deposit their money in the larger banks. In the Northwest territory they get their money into Minneapolis, then into Chicago, and then into New York. It is that question of redeposit on down that makes these larger banks.

I wonder whether you all have considered what might have brought on deposit insurance in the beginning. From 1921 to 1931—and I take those years because they are what I call a normal period of time in American life or economic life—we had a total of 900 bank failures each year during that time. You cannot build a nation or a city or anything else where you are having that condition happening every ten years, or every year with 900 banks failing. Some of those were caused by dishonesty and some by mismanagement; there were many reasons for it.

There is a story that I heard some time ago that will give you some idea of what the people thought of the banks. This is the story of the Irishman who had been drunk many times and had taken the pledge many times, only to break it time and again. Finally his wife said to him: "Pat, I want you to go down to the good Father and take the pledge again." Pat said: "Well, all right, I'll do it." He went down to see the Father and the Father said: "Well, Pat, I am willing to give you the pledge again, but if I do and you break it again, we are through with you." So Pat said all right. The Father continued: "You understand that, don't you, Pat?" And Pat said: "Yes, I understand it." "You understand that if you break the pledge again, you are out of the Church?" Pat said: "Yes," and so he gave him the pledge. And Pat went down-town afterwards and he met some of his friends.

He had a few drinks, then started for home. He had not gone very far until he saw the priest coming down the street. He saw that he was not going to be able to avoid him, so he pushed on along and past the Father and said to him: "Stand aside, Father, and let a good Protestant pass."

There were some banks that did these things. They brought on bank failures and the people got to the point where they thought there had to be something more than "taking the pledge." They felt there had to be some kind of protection for the depositor. The people said: Why should we protect these little fellows. You have been protecting the big fellows, the man with the big deposit can come in and ask for collateral, if he puts his money there. The city and the county ask for protection and they get insurance and when the bank fails they don't lose their money. It was the little fellow, in most cases, that suffered the loss.

Deposit insurance is not a new thing, after all, except for the little man. We had tried out deposit insurance in a great many of the states twelve or fourteen years, but it was not successful, with the possible exception of Texas, where I happen to come from—but I did not happen to have anything to do with its success. Tom Love (Texas) was in my office yesterday and he said that not only had they paid off every depositor in the closed banks of the state but they had grown a million dollars in the fund when it was closed up. The reason why Texas was successful was because of the diversified interest in that state. We can have an absolute crop failure in the Panhandle, as we have had in the past four years, and at the same time the eastern part of the state can carry on. Crops may be very good there. In other words, Texas is just a small United States. It is so large you can just about consider it so. We have the same diversified interest in the state that we have in the nation.

When you were suffering your bank failures in the Northwest, particularly in Iowa and South Dakota, that was when the East was enjoying their greatest prosperity. They could have written off the loss and it would not have hurt them very much. The reason why guartee systems failed was because they set up a competition between your state and national systems. You had practically no control over the state banks. I mean by that you didn't limit them from coming in. Anybody that had $10,000 or $15,000, whatever the law was, could set up a bank. They deposited there because they knew their money was guaranteed and protected by the state fund in Texas.

Last year we had several men out studying the field for deposit insurance. There was a barber in Nebraska who had had about $800 in the bank where the deposits were guaranteed by a fund and he lost his money because the fund failed. Our agent got talking to him while the barber was shaving him and the man got all wrought up thinking about it, and telling about his lost money, so that our agent thought he would not get out of the barber shop whole.

There are rare cases where people do lose their money out of state funds. Another reason why they do not succeed was that there was practically no backing except by the banks that were members.

The FDIC has $290 millions as a backlog for the losses which might incur to the members. That money was given by the Treasury and by the Federal Reserve Banks. In addition to that we have authority to issue securities which must be purchased by the Secretary of the Treasury, that is, providing he agrees to it, and he will because he is interested in the success of the banks—for three times the capital structure. So today we could have had funds of a billion dollars to meet the necessities of paying off the depositors.

In the 17 months that the corporation has been operated there have been 17 bank failures; total deposits amounting to around four and a half million. If we are able to liquidate these on the same basis that the national banks have been liquidated on, there will be a recovery of about two and one half million and our loss in that would be approximately two million.

We have a number of things that have come up which more or less show us how deposit insurance is working in keeping down runs or bank failures. Over in Indiana the other day a national bank examiner went into a small town to examine a bank. It happened to be one of those places where they close up the bank at 12:00 for lunch, and everybody goes home. They came back from lunch and found that the cashier had gone. He had the only keys to the bank and he had left town. Everybody in the little town knew they had to break into the bank and they knew there was some trouble. They called the comptroller's office and said: "What shall we do?" The bank was closed. Then they began to think: We have deposit insurance; let us try it out. Let us see if it really is working, if the people have confidence in it. So the next morning the bank was opened to pay the depositors as they might come in, but there was no run on the bank. People came in and put their money in and said: "How much did he get away with?" They knew they were protected. At the close of business the next day there was more money in than there was that morning. But imagine the difference before. They would have had a run on the bank and it would not have stopped there. Over in a neighboring town they would have said: "Over in such and such a place they are having a run on the bank; perhaps ours is not safe. Perhaps we had better take our money out." And they would have started another run. And the banker would have had to say to the merchant: "That demand note that you have for $2,000, I will have to call that." And the merchant would have to say: "I cannot pay that because the farmers cannot pay me." Then the banker would have to say: "I cannot help that. I have to have my money to pay off the depositors." And the old vicious cycle has started.

That has stopped in this country. People are not going to run to the bank and demand their money. If you can stop it by paying two million or ten million in losses, isn't it worth it? From the standpoint of the banker who doesn't have to worry if something happens in a neighboring town that the depositors will be at his door in the morning, I tell you it is worth it.

A banker in Washington said: If they ever do away with deposit insurance, I will close my bank. I will never go through with what I did in 1930, 1931 and 1932. Life isn't worth it. There is something that eases off that pressure.

Along with that I know many bankers, thousands of them, who say: I am a good banker. I am not going to help pay for the losses of those fellows who are not good bankers. I think you are right; you should not be penalized. We are asking under Title I for authority to correct and stop such bad practices as we may find in the banks. We are not asking it only for our protection but for theirs.

After all the FDIC is a large mutual corporation. It is for your protection that we are asking this. I believe we are entitled to it and I believe you want us to have it.

In these 17 banks that have closed in the last 17 months, 13 of them have been caused by dishonest employees or methods of banking which were so crooked that there will be criminal prosecution. You cannot break entirely from that kind of procedure. You cannot protect the people except through some type of deposit insurance. These banks were closed because of it. If the bonds had been sufficient to pay all the losses they would not have been closed by the state department. Of course with the stockholders liability there won't be much loss in some of the banks. In some of them there will be no loss at all. One that was handling deposits was a national bank in Montana. It just dried up some $30,000 of deposits. The town just dwindled away; there wasn't need for the bank. That is another one of the powers we are asking for in this bill; that is, the authority to determine whether a bank is needed in the community. There is no reason for going back to the condition that existed in 1921 when we had 31,000. They got to be as numerous as gasoline stations, and they, could not live anymore than the gasoline stations, and they, too, will have be cut out. You know some of the conditions in the Northwest states where they grew up overnight. Everybody thought the way to make money was to go into the banking business. It did not prove that way, a great many found out.

I have found in talking to the bankers in both North and South Dakota that they were quite a bit influenced in the slow loans. Some people have felt that we should do away with the classical "slow." As some of you know, there was a meeting in Washington last fall to discuss that. It was held with the chief examiners of the national systems, Federal Reserve and Federal Deposit, and for three days this question was discussed of doing away with the so-called slow loan classification. They decided that was not the best thing to do. But bankers, and we hope directors and officials, too, will understand that because a loan is classified as "slow," it does not mean that it is going to be put in the doubtful column at the next examination. There is a place for slow loans in your bank, but not too many of them. In other words, you have to have a proportion of liquid loans and of slow loans. You cannot set up a requirement and say you cannot have more than 20 or 30 or 40 per cent. The whole thing has to balance out. No one can say how you are going to handle it. But we can show you how many loans there are in the slow column. I have a rule that was given out at that time. I do not know whether you men have ever read it or not, but this is the definition of a slow loan that was agreed upon by the chief examiners at that time.

"The examiners when classifying loans as slow should state briefly the reasons for such classifications, but should bear in mind that the responsibility for determining and taking such action as may be necessary to place such slow loans in proper bankable shape rests entirely with the bankers. The examiners should, therefore, refrain from instructing the bankers as to what course they should pursue with their customers whose paper is classified as slow."

In other words, we want you to know that it is a slow loan so that you will realize you cannot collect it tomorrow and we feel it should be in the "slow" column. I know that many of the loans that are to be paid today are of the "slow" loans. It certainly seems to me that you are going to have to take some of these, probably a great many of them. That is your problem.

There is an incident that happened a few years ago, which illustrates to me the kind of a banker that is going to solve your problem or various problems. Most of you probably play golf. Bobby Jones, in one of his great golf matches in England a few years ago had a tough match on his hands. It was square at the seventeenth hole; his approach went over the green and stopped in about a foot of a picket fence. Bobby could not afford to lose a stroke to throw it from that fence because it meant the loss of the hole. So he walked out to it, looked at his ball, took his midiron out and drove the ball into the fence. It bounded over his shoulder onto the green. He made the fence work for him. He is a real champion. That is the kind of a man that is going to be the real banker in his community. Your leader is going to be the one that takes the conditions as he finds them in his community and makes them work for him and not against him.

There is another story about those loans that may illustrate my point in that. That is the story of the drunk coming home late at night. Before he gets to the house he takes out his key and starts to walk on toward the door. Before he gets to the door he drops the key, but he keeps on walking up to the door and then he begins to look around. Just about that time a policeman comes up and asks him what he is looking for. And he says: "I am just looking for my key." "Well, did you drop it here?" "No, I dropped it back there, but the light is a lot better here." (Laughter.)

You are going to have to go where these loans are. You are not going to be able to sit at your desk and make them. Up until a few years ago your fight was for deposits, not for loans, but it has shifted. You have more money than you know what to do with, and the question is getting it to work. That is your problem, but I believe you have got to go out where they are. You have to sell the money you have. I know one bank in the South that has six men out going into various institutions, trying to show them how they can take money and use it to an advantage. You may have to do that. You may already be doing it, but I do think you are going to have to sell the public on the use of your money. This whole system of business that we operate under is using other people's money, which is the reason we have banks. Your job is to get those people once more to know that they can take money and use it to an advantage.

There has been, I know, considerable criticism throughout the country on our bank examiners, both in the Federal Deposit and in the national system. A great many people and some banks have said that the bank examiners were too hard; they could not make a loan because they would be criticised or put in the doubtful loss column.

Along last fall the comptroller gave to the public for the first time the instructions which he had sent out to his bank examiners. I do not know whether you gentlemen have heard them or not. They were not given to the public. Let me read the first one to you. This was sent out on October 26, 1933:

"After the 'Bank Holiday,' National Bank Examiners were largely engaged in the examination of banks which did not receive a license for the purpose of reorganization. It appears that some examiners in making examinations of licensed national banks have become what might be termed 'Reorganization Minded' and have lost sight of the President's recovery program and its relation to licensed banks. It is the administration's desire that credit channels be opened through licensed banks and this policy cannot be accomplished if examiners follow a deflation policy in examinations. We are all concerned in having solvent banks, but there is a wide distinction between the potential and intrinsic value of assets of a going institution, and liquidating values. Examiners in appraising and classifying assets of licensed banks will not apply liquidating values but will appraise on the basis of fair values on a recovery basis. As an example—in dealing with bank buildings, the examiner must realize that a bank building of a going bank has an intrinsic value, as distinguished from present depressed values, which, combined with the element of recovery, may fully substantiate the carrying value given to it by the bank. The same is true of mortgages, and in this connection the examiners should familiarize themselves with the instructions given with respect to real estate mortgages by the Federal Deposit Insurance Corp. to its examiners.

"You will advise examiners who are examining licensed banks of this policy and see that it is carried out. Any examination now in process, or any future examination, will be governed by these instructions and where an examination has been completed, the examiner making the report will review the report on the above basis and rewrite such report if found necessary. If the examiner is not now available, it may be necessary to make a new examination on the proper basis."

Another letter on March 13, 1934, told them they had to get away from the feeling throughout the country that there were bank examiners that were not fair. Just to check that the comptroller said nothing about it until he was able to get his reports in from 5,275 banks and then check those to see how many of the loans were put into various classifications, and they found in that number of banks, out of $7,748,000 of loans were 2.88 per cent of the loans down in the loss column, 4.19 per cent in the doubtful column, and 27.05 per cent in the slow column. I remember that was at the bottom in 1933 and the first part of 1934. Surely those examiners were pretty fair, if out of 7,700,000,000 of loans they had less than 3 per cent in the loss column, in spite of the worst condition that we had ever had in this country in values being driven down.

So it seems to me that is a pretty good answer to these examiners. I know there are some, may we say, are hard boiled and, frankly, I do not believe there is a place on the banking force of either the national system or the Federal Deposit system for what is known as a hard-boiled bank examiner. I mean it, but I do not mean that he is not going to make you live up to what is right. But a good examiner may not be hard-boiled. It is necessary that he be a good salesman. In other words, he has got to show you that the criticism he has made is sound and correct. You are not going to say he is hard-boiled. We had an example of that not long ago in Louisiana. We had a bank that had been examined and the bank felt the examiner had been unfair. In one of those unusual instances they asked for a re-examination, and another examiner was sent. This man found identically the same conditions as the other man, but he went to the board and said: "Here are some things I would like you to tell me about; not today, but when I come back in a week I want you to be able to answer these questions on these loans." He came back; they were the same questions as the other man's. But they told him: "We want to thank you for what you have done. You have caused us to dig at the affairs of this bank and find out that they were not going around the right way." They complimented him for what he had done for them. It was exactly the same as the other man had found out, but it was handled a little differently. One of the officials was retired and the bank probably will pull through. They found there was real estate carried on their books that had already been sold for taxes. In many other instances they had been taking this man's word for it, and he had let it slip.

That is what I mean between the hard-boiled examiner and one that is fair. The type of man that we are going to have and must have in the banking world today, if they are going to be of assistance to you and to us, is just that kind. My immediate chief is the comptroller of the currency. Most of you know him; he spoke before your organization last year and the year before. I have known him for some 25 years. It seems to me that some people do not fully appreciate the great job he has done down in Washington. There was a lot of criticism about "Jefty" O'Connor, as most of us call him. He was a lawyer, not a banker, when he came to Washington somebody said: "Why are they going to have a lawyer down there?" Somebody else said: "Well, the banks are all protected anyway." You always go to a lawyer when you get into that condition. Maybe that is the right kind of a man to have. His training and background gave him the right to handle this during the extremely hard period. Some of you men went down in that period. Take those 1,700 banks in conservatorship with almost $2,000,000,000 tied up. Almost all that money has been released in two years but about 5 per cent—yes, in a year and a half. They had to put all this money into these banks to rehabilitate them. He was the only man to serve on the board at the beginning. I think when this history is written that Jefty will have a nice spot in it. He has done a nice job. I think the bankers will appreciate the job then more than they do today.

The FDIC also drew another man from this part of the country, Judge Burch, our general counsel. He came from North Dakota. His calm judgment has been of great help to the FDIC.

Mr. Crowley, the chairman of our board, is another man who came from this part of the country. He came from Minneapolis. Those men are working day and night, particularly nights, to try and iron out these problems. Mr. Crowley is widely interested in Wisconsin. I know he has suffered financially from his work there because no man who is really in the business world can afford from a financial standpoint to live on the small salary he gets there and not suffer from the financial sacrifice.

Mr. Bennett, who came on and worked day and night for months, deserves a great deal of credit for his job. These men do not work just eight hours a day, or 10 or 12, but it is more often 18 and 20, to do this job for the bankers of the country. It seems to me that the people of the nation do not appreciate the bankers. You have a place in the community which is really greater than any other profession and it seems to me that banking might be raised to a profession. I think that is one of the jobs of you bankers, to come out into that class, and not let just any man that has $10,000, $15,000 or $20,000 go out and buy a bank. You license doctors, druggists, dentists, but you don't the banker. He is entrusted not only with the care of the finances, he is entrusted with the happiness of the community.

If we could just properly develop within your own organization in each state a committee that would handle these so-called "bad bankers," you would probably get away from a lot of governmental control that worries many of you by handling those people in your own state and your own association. And this reminds me of another story I heard some time ago about a doctor who had been practicing in this small community for a number of years; all of his life, as a matter of fact. He was getting along in years and the medical school told this young doctor in college that they thought there was an opening in this town. He went down to see the old doctor and he said, "I am going to come here to practice. Would you advise me to do it?" Dr. Jones said: "Yes, I think I would come here if you want to be of service to the community. They are nice people; it is a good place to work. You won't make much money. They will probably pay you in potatoes and butter, chickens and eggs many times, but here's a great place to be of service to your community and the world." The young doctor came and he took an office across the hall in the two-story building, the only two-story building in town. And downstairs he put his sign alongside of Dr. Jones'. It wasn't long until he came in late at night and he wanted to see Dr. Jones about a particularly hard case he had had. He went across the hall and there sat the old man at his desk, his face buried in his hands. He called to him, but he did not answer. He touched him and he saw Dr. Jones was dead. He arranged for the funeral because he had grown very much attached to the old doctor. Dr. Jones' wife was dead; they had no children. The people liked him, but none of them had any money and so they could not raise any money for a tombstone or a marker. He used to go to the cemetery every Sunday and stand there and think of the great work that Dr. Jones had done. And then he would walk back to the office. He would see the old sign there, "Dr. Jones, Upstairs." So he took it down and took it to the cemetery and he put it down there so that the world might see that Dr. Jones was "upstairs."

If the banker serves his community he is entitled to that kind of recommendation by the community. Some people don't know what you give up. I remember down in Washington during the hectic days of 1933, when this banker came down to reorganize his banks, he was willing to give everything he had to get it done. They had a plan that the comptroller approved, but they had some other details to go over. They went over to work it out in the late afternoon; it was a hot day like yesterday, and the banker had a stroke. He was sent home that night in a coffin. He had given his life for his community, but I wonder if the people appreciated it. I doubt it.

There is one thing, it seems to me, we have got to do in the next few months and that is to get confidence re-established in the people. I think the people have shown they have confidence in you bankers, because they have deposited in the banks more than $4,000,000,000 more than you had on January 1, 1934. They have shown their confidence in you and if the bankers and the business people of the country can show their confidence, back in the people and work together, we are probably going ahead if we just preach it and think it. The Good Book says: "As a man thinketh in his heart, so is he." If we think it is all right.

I have another story I want to tell and that is about the Negro preacher who never preached from a text but from a word. Usually he preached from a word like "Heaven," "Hell," "Love," or something of that sort. On this particular night he asked: "What will the word be tonight?" and someone in the audience said: "Pill." The old man had never preached a sermon from the word "Pill" and he roamed around: "Well," he said, "we has little pills and we has big pills; we has white pills and we has black pills; we has round pills and we has egg shaped pills, but," he says, "there is only one pill that will cure all your ills and that is the 'Gos-pill' (Gospel)." (Laughter.)

If I could leave just one word with you, I would leave this: The Gos-pill of Confidence in our country. It is going to come back; it is too young and too strong to have reached the top and start down. The whole thing is in your hands; nobody can do it any better than you can right where you are. It cannot be legislated in Washington. It is your job and if we will all work together and put over that feeling of confidence in ourselves and in the country and in our great leader I am sure it will come out all right. It has been a great pleasure to be with you. Thank you.

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PRESIDENT FOUQUETTE: The opportunity of voting on the resolutions will come up tomorrow. We hope the program will start promptly at 9:30. The program will be as scheduled with one exception: the banquet this evening is going to be at 7:00 in this room. And unless there is other business to come before the session, we will stand adjourned.

(Adjourned at 5:10 until 7 p. m.)

BANQUET MEETING, WEDNESDAY EVENING

PRESIDENT FOUQUETTE: Ladies and Gentlemen: I assure you that it is a genuine pleasure to see this fine gathering here and it is most gratifying to the officers of the association.

Now I want to present to you the next president of the Minnesota Bankers Association, Mr. William N. Johnson. (Applause.)

I should like to make a few remarks regarding the next speaker. I know considerable about him but he has requested me to say nothing (laughter) excepting that he lived in Minnesota at one time and that the largest bank in the United States had to have him manage the bank, the Chase National Bank, New York City. It is a great pleasure for me to present to you our guest speaker, Mr. Frank M. Totton, vice president The Chase National Bank, New York City.

Romance in the Every Day

By Frank M. Totton

MR. TOTTON: Mr. President, Ladies and Gentlemen, and the Bank Commissioner from North Dakota: Dan Fouquette has just given me a wire, I note. You will be glad to see it, Commissioner, because it announces the fact that your mother-in-law has passed away. (Laughter.)

Here we have "Dan" with us tonight; last night you will remember we had "Beer," so we have run the whole gamut from "Dan to Beersheba." (Laughter.)

I am glad to see the ladies here tonight. I used to bring my wife to some of these state doings until one year I brought her to a convention and a fellow came up to spreak to me. He was one of those mellow sort of fellows and he put his arm around me and he said: "Say, Frank, I am glad to see you. So you didn't bring your wife with you." I said: "Oh, yes, I did. I would like you to meet her," and I introduced them. And he said: "How do you do, I am certainly glad to see you," and then he turned his back on her and said: "Say, you didn't bring your wife along with you." I was never able to satisfactorily explain that.

I am not much of a Romeo, but one day I was expressing my love to my wife and she said to me: "I know, but would you love me when I grow old and ugly?" And I said: "My dear, you may grow older, but you will never grow uglier." (Laughter.)

Now, if you will just turn and notice that trio sitting in the back of the room (J. Cameron Thomson, Lyman E. Wakefield and C. Ben Brombach), isn't that a marvelous trio? It shows just how close the First National and the Northwestern are. Now the gentleman that forms the wedge of that flying trapeze is J. Cameron Thompson. Cameron has a very charming wife, as some of you may know. Mrs. Thomson had occasion to buy some stuff for Cameron and she walked up in this store to a slick looking fellow and she said: "Have you any Life Buoy?" (life boy) and he answered her quick as a flash: "I'll say I have." You say it! (Laughter.)

I never knew there were so many nudists in this country as there apparently are. I was reading a soap ad the other day and it read like this: "Use our soap; it refreshes, relaxes, invigorates. You step forth from your bath ready to meet all comers." (Laughter.)

Now, the gentleman to the right is Lyman Wakefield. Lyman has had a very busy year, as some of you may know, because in addition to running the First National Bank he is just finishing his term as president of the Reserve City Bankers. One night he and his wife were sitting at home reading and she said: "Lyman, look at this. Isn't this terrible? They tell here about where in the Fiji Islands a man can buy a wife for 40 guineas. Isn't that terrible?" Lyman said: "Yes, it is, but probably they have profiteers there the same as everywhere else." (Laughter.)

The gentleman on the left, who is losing his hair (laughter), I am sorry to say, is the first picture in our trio—going, going, gone. That's Ben Brombach. Since I have hit this town he has shown me a lot of sights, renewed old acquaintances and so forth and so I feel just like a tourist. There was a tourist who went to Europe; and he went to Rome, and went through the Vatican and when the guide who was showing him the sights said: "And those are the cardinals," the fellow said: "Which is Dizzy Dean?" (Laughter.)

FRANK M. TOTTON

There was a very famous French philosopher who once said that he regarded solemnity as a disease. And sad, indeed, are those who cannot laugh away their wrinkles. Some of us have laughed away our wrinkles and our hearts and about everything else. We have done it in spite of dust storms, drouth, truck drivers' strike and the "bogey" of Title II "will get you if you don't watch out."

I have chosen as a subject tonight, "Romance in the Every Day." We do have Romance; most of us are just ordinary people, ordinary bankers, we have ordinary homes, ordinary friends. They tell us that we should be happy and enthusiastic. But, how can we do this? Most of us get enthusiastic enough when we go to the baseball game, when Jim Braddock knocks out Baer, and the radio is blasting out blow by blow; we fairly worship home-run kings, etc. We place great emphasis on the physical. Here is the summer fishing season among us again: many of us will be fishing before long. As Eddie Guest says:

"A feller isn't thinkin' mean
Out fishin';
His thoughts are mostly good and clean
Out fishin';
He doesn't knock his fellow man
Or harbor any grudges then;
A fellow is at his finest
When out fishin'.

"The rich are comrades to the poor
Out fishin';
All members of a common lure
Out fishin';
The urchin with the pin and string
Can chum with millionaire and king;
Vain pride is a forgotten thing
Out fishin'.

"A feller gets a chance to dream
Out fishin';
He learns the beauties of a stream
Out fishin';
He can wash his soul in air
That isn't foul with selfish care;
And relish plain and simple fare
Out fishin'.

"A feller has no time for hate
Out fishin';
Isn't eager to be great,
Out fishin';
Isn't thinking thoughts of self
Of goods stacked high upon the pantry shelf.
But he's always just himself,
Out fishin'."

You know when we go on our vacation trips, how good we feel, how exhilirated. Have you ever put your foot in the stirrup and given the horse his head? Have you ever dived into the lake, as I have, and enjoyed the thrill that comes? Have you ever dived and then pushed out for the other shore and felt the joy of the physical accomplishment? Have you ever sat in a shell with seven other men and felt the shore line vanish? Have you ever felt those men act as a single unit and doubled the home run? Have you ever crouched behind the line and heard the quarter shout the number, your signal, and you went through and they could not hold you back? You know what I mean. The joy of physical accomplishment.

I believe we can take this enthusiasm and transport it over into the realm of the mental and spiritual and harness it for something higher and worth while. What should we put enthusiasm to, what should we be enthusiastic about? Ourselves and our opportunity! And we should be thankful that no caste system is in free America, but that each one of us is privileged to work out his destiny as he sees fit.

A short time ago I went through the Grand Central Station and I saw a group of boys going to a small camp. They were about 10 or 11 years of age. Their rollicking laughter and boyish enthusiasm warmed up those cold marble corridors. I could imagine the summer camp that those boys were going to with its pleasures, camp fires, and thrilling stories, and then the moon and the stars and the night air. No wonder those boys are happy. I was happy with them in their anticipation.

I went through the Grand Central Station again a few mornings later and I saw another group of boys, about the same age, but how different! They did not rollick; there was no laughter there. They were filing down, two by two. I made inquiries and found they were orphans, poor boys, no fathers nor mothers, just so many units in the machine. They were institutionalized to such an extent that all the fun and gaiety and splendor had been taken out of their lives; poor boys. I did not feel happy; I felt sad. Standardized machinery for industry and a prerequisite for mass production, but that is not a prideful thing when applied to our boys.

That is one of the dangers facing America today, I find, a danger that the individual shall be smothered up into a mass system. That is unfortunate, for we are each of us endowed with distinct personalities and each have our own gifts, and we should vow never to become sealed up. It is said that colleges even aid and abet it. It is said that groups of students emerge from the colleges as like as two peas in a pod. They have been run through all the same. We should vow that we shall never become sealed up in this mass system but we shall keep radiant and aglow with the personality with which we have been endowed.

In the next place let us see Romance. What a marvelous time in which to live broadcast on man's life all about us; we have to pinch ourselves to see that all that is true. For the first time in the world there was a 23,000 mile hookup by telephone and radio. Mr. Gifford sat in his office in New York and Mr. Miller sat at another phone 50 feet away and they talked to each other all the way around the globe. It went first from Mr. Miller in New York to San Francisco, then to Java, and then on. Mr. Gifford's voice went the other way. These voices went all around the globe in one quarter of one second! And out there in the Pacific where there is an international date line, one met today going into tomorrow and back from tomorrow into today! Wonderful! It is a great change and the end is not in sight yet.

We should see romance in high adventure, be enthusiastic over our homes. I have been in some fine homes since I have been in Minneapolis and the American home I think is the finest in the world. I can close my eyes and see my own home now on the Atlantic.

Some time ago there was crated and shipped to France a modern house, which represented the contribution of 30 manufacturing and trade associations. It was supposed to show to the people of France how American people lived, the American inventive genius, and how they had removed drudgery from the American home: You touched a button and the beds were made; the dishes washed. They called it the "American Home" but was it the American Home? No. That was not the home. Within the four walls of this room are the members of the Minnesota Bankers Association, but is it a home? American home? No.

"It takes a heap of living in a place
To call it home."

(Quoting the rest of Eddie Guest's poem.)

Channing Pollock said that he and his wife went to see one of the hits on Broadway one night and the story centered around a young woman who fell in love with a man not her husband and ran off with him. Then Channing Pollock says he went to a movie with his wife, and he sat with some 500 others and saw a plot develop about a young man who had built up a fine business; he became soft, slept on satin pillows, chased off to Europe with a little thing who thought life was all one round of pleasure. Channing Pollock said: "I am sick of such stuff. Why doesn't some playwright discover the glory of doing your job and the romance of loving your wife. The hero of the story, Fred, never earned over $40 a week in his life. He had bought a home in the suburb, raised two fine boys, sent them through college. I saw Fred the other day on Fifth avenue and he appeared somewhat shabby and shiny in a blue serge and you know how blue serge can shine and where, and I said to Fred: "Now since the boys are educated and on their own, why don't you treat yourself a little better?" He said: "I cannot afford to. You see I am carrying a lot of life insurance, because I have got to make sure that Clara is provided for when I am gone." He left me somewhat shamefacedly, I thought, but as he did a stray sumbeam fell across his suit, and I saw Camelot in shining armor. And I said to myself: "What is the difference between that man and Lancelot?" The hero of the list fought 20 minutes for the woman of his choice, but Fred has battled for 40 years.

My friends, there are millions of others in this land that go forth each morning and come back each night to some little woman, who has kept the flag flying. That is why as a nation we continue to grow in spite of the grafters and the gun men and shining armor still survives.

There is romance in every flat and farm in America. Most of us fall in love and marry and plan for the baby, and then one night we sit beside the crib and hold his hot little hand and fearfully watch the doctor's face. That story could be repeated in thousands and thousands of American homes today.

The story is told of Mr. and Mrs. Strauss on the Titantic. The women and children were ordered to go into the life boats and they started to put Mrs. Strauss in, when she saw that her husband, her partner of 40 years, was not coming, and so she stepped back onto the slipping deck to her husband's side and there, every inch a queen, she drew herself up and looked him in the eye and said: "We have been together many years. Where you go I go." That is not fiction; that is life; thrilling.

Then we will see much in these youngsters of ours in the next place. The youngsters coming home with the report card; the report may not be so good and you call him aside and perhaps you say to him like one father did: "You cannot get a thing in your head." And the little boy replied: "No, I cannot, but when I once get it there, it's like it's sunk in concrete."

The little girl next door went up to her uncle's farm one summer and watched him put a black band around the trees to keep the caterpillars and worms from crawling up the tree. She came back home and one day her mother had a visitor and that visitor had a morning band around his arm. The little girl stood it just about so long and then she went up to her mother and said: "Mother, what's to keep them from crawling up his other arm?"

So I am keen for these youngsters. I think it is George Santiana who says: "Our children are our immortality." These youngsters of ours are sleeping tonight under this roof of ours, and under roofs throughout all this land. They represent the hopes and the fears of all of us. Tiny hands that hold America's destiny. They will be bankers, lawyers, statesmen and merchants, the same as you and I. Will they be as good as you and I have been? No. They will be better, because they are living in a better world. One of the organizations contributing to that end is the Minnesota Bankers Association.

I was born in Minneapolis and I always like to come back. I had a great time here as a boy; as a little lad I had so much to make myself glad in the winter time and in the summer time. There was always something new. I tell you it's a great thing to be a boy.

"It's great to be a little lad;
He has so much to make him glad;
With winter time and summer time;
The hills to climb and trees to climb."

So I say, let us be enthusiastic about these youngsters of ours. In the next place we who see romance and high adventure and a great opportunity in our profession, who believe in banking thoroughly, should be enthusiastic also.

There was a mother reproaching her marriageable daughter as to why she did not encourage Johnny. "But mother, I cannot think of Johnny," she said. "Why not?" "Johnny is impossible. Johnny does not believe in anything; he does not even believe in Hell." "All right," said the mother, "you just marry him and he will soon get over that." (Laughter.)

So let us believe in something: believe in hell, or banking, or something. I know of course that some of us are not thought as much of by the general rank and file. I did not realize that we had fallen so low in popular esteem as apparently we have, by the talk of a man who sat and talked to me one day not long ago. He talked on and on and he said: "There are hundreds of ways of making money, but there is only one way that is honest." "What is that," I asked? "Ho, ho," he said, "I thought you wouldn't know." (Laughter.)

I am sure we all believe in our profession; I believe it is a good, honest business and that a banker keeps a good standing in the community. A true banker is a real minister of the gospel of applied religion, and he is a very real instructor in industry and sobriety. He will bring to us the love of doing all things well, to the generation through which we express ourselves toward our day. We can say of Henry Van Dyke:

"Let me but add my work, my time, etc."

What is the banker's opportunity in this great age of television, hydrodynamics? Such men who must tie together all men's offers, who must finance wisely and economically all the rapidly moving inventions of man's mind, all lines of forces, radiate from him. We as bankers in Minnesota and elsewhere throughout the nation must prepare ourselves for the bigger and better days that are ahead. We will never be socialized, nor will we bow to regimentation. Banks will always continue to be privately owned. Let us link arms and march forward to meet this New Day, to meet these new problems.

When I came into the hotel a piece of printed matter was given me. It said "Nicollet Hotel" and below it said: "A hotel with a tradition." You are a bankers' association with a tradition; 46 years of glorious tradition.

Possibly you have heard Dr. Fosdick tell the story of the boy and girl ten and eleven years old, who fell through the ice. The person who was trying to rescue the children, reached the little boy first, but the boy said: Never mind me; save Annie." And in saving Annie they did not have time to save the little boy, so he gave up his life for his sister. He gave up his life that his sister might live. Somewhere, said Dr. Fosdick, somewhere in that boy's short life he had absorbed what was expected of a man. He had inherited a great tradition.

You and I have inherited a great tradition and you as members of this association know instinctively what is expected of you in time of crisis. There is a force in this world, a presence that we cannot describe, but which we can feel, that stirs us; it is the spirit of which leaders are made. You find it proven in all organizations where team play is vitally necessary and you find it in bankers' associations.

Knute Rockne was a great trainer and conditioner of bodies. He knew how to bring men to the full peak of physical perfection. He taught them something more than that; he taught them to think, and as you saw them forming, you saw the thought behind the machine. More than the giving of great bodies, more than the ability to think, he gave them spirit. Rockne said his greatest was George Gipp, so affectionately known as the "Gipper," six feet tall, 195 pounds, a wonderful player, wonderful in victory, a dead game sport in defeat. With that mystery irony which seems to run all through life, he was stricken with a throat infection. On his death bed, he called for Rockne and he said: "Rock, there is coming a game when the team is getting licked. Then I want you to call the fellows together, and tell them, 'Go in there and fight; give them all you have and win one for the old Gipper.' I do not know where I will be, Rock, but I will know about it and help out." Then he was gone. The years rolled on, six or seven, and the season of 1923 came.

That day Notre Dame was playing the Army and the breaks were going against Notre Dame and it looked like defeat. The first half ended; the whistle blew; Rock wondered what he was going to say to the boys. The Gipper had been dead four or five or six years, and these boys had never even seen the Gipper, but Rock said: "Boys, when the Gipper was on his death bed, he called me in and he said: 'There is coming a day when the team is getting licked and the breaks are going against them. I want you to call them in and tell them to win one for the old Gipper. I do not know where I will be then, Rock, but I will know all about it and help out.' That is all."

The whistle blew for the second half; the team ran out on the field; the same boys, same old sweater, same old colored shirt, same old aching limbs, the same old team? No. A team that you would not have recognized. They had something in them that they did not have before. A team that could not be licked. One of the players was hurt and as one of the men lifted him to his feet, he heard him say: "There's one for the Old Gipper." That team had a tradition. That team had a great and compelling and challenging leadership going on ahead.

You and this organization have had a great record through these 46 years. You are going to carry on in the future in a more glorious way because of your community record, team play, tradition, because of great and challenging leadership from the past down to the present, and because of a united and deep seated desire in the hearts of each one of you to hand down to the future the resounding challenge for better lives, better banks and a better country. (Applause)

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PRESIDENT FOUQUETTE: Mr. Totton, I am sure that all these good people here join me in saying, "Thank you."

Meeting adjourned until 9:45 A. M. Thursday.

THURSDAY MORNING SESSION, JUNE 20

The Thursday morning session was called to order at 9:45 o'clock. President D. J. Fouquette presiding.

CHAIRMAN FOUQUETTE: The crowd this morning is not large, but I know that we have quality, so it is a great pleasure to again open this meeting.

MR. LUNDSTEN: Mr. President and ladies and gentlemen:

"Full many a gem of purest ray serene,
The dark unfathom'd caves of ocean bear;
Full many a flower is born to blush unseen,
And waste its sweetness on the desert air."

I do not believe that the great Creator intended that these peonies should waste their fragrance on the desert air, and so on behalf of the Minnesota Bankers Association, as a slight token of our appreciation of your efforts during this convention, we present to you, Miss Boesch, this bunch of peonies.

MISS BLANCHE BOESCH (secretary to Mr. Duncan): Thank you very much, Mr. Lundsten.

MR. LUNDSTEN: And we present you with this bunch, Miss Torr, in appreciation of your work for our convention.

MISS DOROTHY TORR (convention reporter): Thank you kindly, Mr. Lundsten.

CHAIRMAN FOUQUETTE: It seems that it took a man from the sunshine state to bring sunshine this morning. Our speaker this morning is a gentleman from California. We can also say that he is a gentleman from Minnesota, for he at one time resided in the state of Minnesota. It gives me a great deal of pleasure to pesent to you Congressman Tolan from the state of California.

Address of Congressman Tolan

Being born at St. Peter, Minn., I felt this morning a good deal like the man who had been very seriously sick for some time and he woke up one morning about 4 o'clock in a delirium, and said: "Where am I? Am I in heaven?" And his wife said: "No, dear, I am still with you." (Laughter.)

It has been 30 years since I have been back in my native state—and, by the way, I am only going to talk to you for a few minutes, because I know you are tired and you have other speakers to listen to—30 years, but they are tender memories to me from the state of Minnesota.

I used to work for Henry Johnson. I started in at $1.50 a week as a printer's devil. I used to give my mother $1.25 of it and took the balance for incidentals for myself. Outside of my mother, Governor Johnson had more to do with what little success I have had in life than any other individual I ever met. I remember that he used to come in when I was sitting on the stool setting type and talk to me. He was a friend to me. And then I remember when I got out in the state of Montana and had a little to do with politics, I had the honor of being instrumental in having our state instruct for him to be President of the United States. Now there was a man.

So getting back to Minneapolis, I feel I am coming home. They call me in Washington the "extra congressman from Minnesota" because I talk so much about Minnesota.

I have been talking to bankers for the last 33 years but never have I got anything from you. (Laughter.) I don't know that I am going to have any success this morning, but I want to say simply what I have to say. I have a lot of stuff to read, but I am not going to read any of it.

I would like to tell you my reactions as a first term congressman; my reactions about whom you meet there. In the first pace I was disillusioned as to congressmen. I thought we met at 12:00 and had a session for an hour or two, and it was all over with. I want to tell you this, gentlemen: Congressmen work much harder than you think. As a first-term congressman, I am on five committees, Civil Service and others. I average five hours a day on the dictaphone trying to answer the letters that come to me from my district. Then you attend the session of Congress. I want to say to you that congressmen haven't sufficient time to study major legislation.

In the olden days before the radio and the newspapers, people were not thinking in terms of government so much so far as contacting them, but I want to tell you now it is terrible, so far as correspondence is concerned. I do not want to talk to you about the Bank Act. You know more about it today than I do. But I want you to have this message this morning: I don't want you to worry over Title II, as it is my own idea that it will never be enacted at this session of Congress. I have talked to men of high authority. I talked to J. F. T. O'Connor, comptroller of the currency, born over here in a sister state, one of the best men that I have ever met. He told me before I left: "John, I am against operating on a well man." (Laughter.) Now doesn't that tell the story? So don't you worry about Title II, so far as this session of Congress is concerned. You have made progress, wonderful progress. I think we are getting a little bit too much legislation at this time. That is my own reaction.

I want to say something to you about this Banking Act. There is a provision in this new Banking Bill for an increase of loans on real estate, increasing the percentage of the loan. It does not strike me so very good. How are you going to increase loans on real estate, that is, the percentage clause, in the United States of America? Now real estate is one of my pet subjects.

In this country we came along, then we became prosperous, and then we finally took from the foundation of this government real estate, the great cornerstone of government. Sixty-five per cent of the wealth of the United States is in real estate; 35 per cent not. We started in on real estate and gouged (in taxes) until we took all the cream. And when you dig like that, I doubt if you are going to get very far. Now that is just my humble opinion.

What do we do in the United States? I want you to go home with this thought: We tax dead money in these United States. We sent an assessor out and he looks at a vacant lot and he says to himself: "This looks like a valuable lot to me. I'll rate that pretty righ." Then it isn't taxed once; there is a tax based upon net or current earnings. The assessor looks at an apartment house and he says: "That is a mighty good looking apartment house. I'll just give that a good tax." You know what has become of apartment houses? I would hate to tell you. They have been foreclosed upon by bankers and building and loans, but we haven't hit it yet until we take in the whole proposition.

In England if you have an apartment house and it is only half rented, you pay half taxes; if it is wholly vacant, you pay no tax. No man in France loses his property on account of not paying his taxes. If they make nothing, they pay nothing. What we should do in this country is to get after the inheritance taxes and raise them and not undermine the very foundation of our government, that is, real estate. Because you know in 1929, when the depression came on, real estate, and that means your building and loans, savings, banks, insurance companies, etc., were hit pretty hard. We are in a bad situation and we haven't hit it yet. We must take all costs of government from real estate. We must save our homes, because, you know, everyone loves to hold a little bit of real estate.

I stood at the time Chief Justice Hughes told the nation of the NRA and I said to myself: "I have practiced law for 33 years and I don't know much about it—have lost more cases than I ever won." I walked back to the House and said to myself: "Yes, there sit nine blackrobed figures, receiving $20,000 a year, and that position is all right, but why cannot the servants of 125,000,000 people tell us before whether something is illegal or not and not tell it four or five years afterwards?" I am telling you how dumb I was. I just had the thought.

I went over to the Congressional Library and do you know what I found out? I found that Madison held up the adoption of the Constitution of the United States for days endeavoring to get the supreme court of the United States to render opinions about its constitutionality. Do you know what else I found out there? I found out that the state of Massachusetts had it in it's own constitution before the federal constitution, that upon the request of the governor, the supreme court of the state must render an advisory opinion as to the constitutionality of an act. I went a little further and found that 13 states of the Union have provisions for the supreme court to render advisory opinions and 410 opinions have been rendered. I found also that in 1791 we adopted our original 10 amendments, and that since then there have been only 12 amendments. There were 13 but one was to repeal the other, so we really only had 11; 3,500 have been proposed.

I have introduced in the Congress of the United States a resolution to the effect that upon the request of the President of the United States, or either House of Congress, the supreme court must render in writing an opinion as to the constitutionality of an act. And why shouldn't they? They are our agents and why shouldn't they tell to the 125,000,000 people their advice as to whether an act is constitutional or not? Think of the troubled business conditions that would avoid. I wish you men would give this proposition a little thought.

In closing, may I say to you simply that I think we have a President who is doing his level best. The first night I was in Washington I saw him meeting 1,500 people. He stood there for two hours and I am sure it must have been a trial, but he had the same smile for two hours. I saw him when the new members met him about three months ago, and we had a little motion picture first, and then we went back into a room and I saw that man sing old songs and tell stories for three hours. I saw him a week ago Friday, meeting the North California and Central Valley delegation, and he told them more about that project than we knew ourselves. Then he said to them: "Gentlemen, my problem is this: I know you need it; I know it would be a good thing. But if you take $170,000,000 for that problem of yours, what am I going to do with the other problems?" I ask you men in all seriousness: Who wants his load? You cannot tackle it? He is our President but they are saying things about him that I do not think he deserves. I want to say to you that today we are thinking in terms of knocking over the entire nation. We are not thinking calmly, sweetly, kindly. We are calling each other names, and we are counting new names. We think we are having a good time, but I say to you if you talk to people, you must talk to them calmly and kindly and sweetly. We are not over the hump, but we are not going to pieces. We have too much bloodshed of our fathers behind us to pay with our nation now.

I would like to create a new party and I think they would be much better than they think we are. I find congressmen better. We are just human beings. Our lives are only just sections in the calendar of time. We are saying things that are not necessary. We are talking excitedly. We have a country that the world is depending on. We have a President, whose heart and soul is for the American people. Let us support him. (Applause.)

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CHAIRMAN FOUQUETTE: I am sure, Congressman Tolan, that we all join in an expression of appreciation for your appearance on our program this morning, and I want to thank you.

Yesterday we had a presentation by Warren Stehman of the University of Minnesota. A further discussion will follow this morning, which is a contribution of our University of Minnesota. This morning we have a talk by Arthur W. Marget, Professor of Economics and Banking at the University of Minnesota, and the subject of his speech is "Do the Provisions of the Proposed Bill Provide Means for Checking Inflation?" Mr. Marget:

Do Provisions of Proposed Bill Provide Effective Means of Checking Inflation?

By Arthur W. Marget

Apparently this is not the only occasion on which bankers have wasted their valuable time listening to college professors. I have before me a clipping from the New York Times, reporting a speech which was made by Professor Willis before the New York State Association. Some of you, no doubt, will remember him because he was responsible for the draft of the original Federal Reserve Act.

"Dr. Willis assailed the financial policies of the administration and denounced the Banking Act of 1935 as the 'worst and most dangerous banking measure that has ever come before Congress.'

"He said there was every reason to believe that the bill would pass Congress in close to its present form. On that assumption, he exhorted the bankers to 'leave the system, those of you who belong, and don't join it, those of you who don't belong.'

"Specifically, he urged that at least six big New York banks should retire from the system, and he suggested that these and other dissenting banks should set up a rival central bank, privately owned and operated. Such a step, he declared, would make the politicians 'listen to reason'."

Well, that is one reaction to this Banking Bill. For myself, I shall simply say this: There are, indeed, a number of things I do not like about that bill. Concretely, I do not like the provisions with respect to changes of rediscounts and especially the implications of bank liquidity. I understand that Dr. Payli spoke about that.

Having said that I do not like certain things about the bill, I hasten to say that I do not think that intemperate blasts of the kind that Professor Willis asserts and of the kind we have from some members of your own fraternity, are conducive to a discussion of the important issues that are facing this country of the kind that we require.

Of these issues one of the most important is the matter of inflation and it is that question that I have been asked to discuss in the light of the special provisions of this bill insofar as they throw some light upon the question as to the possibility and probability of stopping the inflationary movement which is now under way before it gets completely out of hand. Obviously, the first question you have to ask is this: Will those in authority want to stop the inflation when the time comes? And this, in turn, leads to other related questions. In the first place, just who will be the authority which will decide on that vital question of policy when this bill will have been passed, as compared to the authority which would have decided upon it if the bill is not passed? And, secondly, is this change in localization of authority likely to make more probable the stopping of the inflationary process or less probable?

The first question is: Who is the authority who is going to decide under this bill? It is all simple for Professor Willis. We are going to have a dependent and incompetent board at Washington. That is a round ringing phrase. I think we would understand more clearly what the situation is all about if, instead of making a phrase like that, we try to understand what the phrases are.

It is undoubtedly true that this act strengthens the powers of the Federal Reserve Board, and when I come to the actual weapons I shall say something more about that. It is undoubtedly a strengthening of the powers assigned to the Federal Reserve. Whether you think it is a good thing or a bad thing will depend upon your thought of the administration in general. If you happen to believe that the most desirable type of administration under all systems is a system of checks and balances, then you are going to oppose centralization in all its forms. If, on the other hand, you believe that there are no cases in which no action is preferable to action, in the sense that a failure to act in a crucial time may have the same consequences as ill-advised action, then I think you will conclude that centralization of power is a necessary step toward the sense of responsibility. My opinion is that the latter of these two attitudes with respect to the particular problem of administration that we are interested in is the wiser one, because if there ever was a field in which failure to act at the proper time is disastrous that field is the monetary policy. If there ever was a situation in economic history where that was particularly true, I think it is the present one.

Of course, as everybody knows, the fundamental characteristic of the situation is we have an enormous amount of reserve in the bank which if released would make such inflation as nobody has ever lived through. There have been some things in Europe before the war time, but that was just a ripple.

That is the situation. Now any action at all will mean that sooner or later these reserves will be used, and we shall have that question of inflation. In a situation of checks and balances, it means that we are going to fix the situation so that it will be difficult to take action. But regardless of all that, inflation is ahead of us, it is said. But that is a conclusion to which I am not myself willing to say. It would be entirely different if the action was equal, then one might be in favor of a system of checks and balances, which would prevent that action being taken. Whether we like it or not, the groundwork has been laid and the situation is loaded with dynamite. If you leave that situation alone, it is going, sooner or later, to explode. It is on that basis, so far as I am personally concerned, the centralization of power and responsibility is a thing which I welcome rather than reject. Of course, that is not all that is involved.

The idea of centralization of authority, so far as banking is concerned, is not a new one. As many of you will remember, when an elaborate plan was proposed, it was called—and was in effect—a proposal for a central bank so that when the Democratic platform was drafted, around 1912, they felt it necessary to go on record against the Aldrich plan of a central bank. When the Reserves were established, the Democrats were careful to say it was a misprint, that all they wanted to say was that they opposed the plan for the Aldrich plan, not the central bank. The Federal Reserve plan was supported by the bankers. Broadly speaking, and taken by and large, there were few bankers who opposed the Federal Reserve system. But one of the reasons they opposed it was the centralization of authority. It was a central bank in a more explicit way than the Federal Reserve act was. But there was this very vital difference from the banker's point of view, that this centralization of authority was put in the hands of the bankers themselves.

The Federal Reserve Board, on the other hand, is politically appointed. The reason why we have a politically appointed board, I suppose you may know, is because William Jennings Bryan insisted on it. If Mr. Wilson had not done that, there would have been no Federal Reserve. Now, to some people the fact that the Federal Reserve is politically appointed is due to Mr. Bryan's request is enough to condemn the thing. But when you are asked for a logical reason as to why you don't like that setup of this board, the answer is usually similar to Professor Willis': "A politically appointed board must be necessarily dependent and incompetent."

I must again say that I find a good

deal of unnecessary heat and intolerance as to whether we should have a politically appointee of bankers. I think I hardly need to take your time on that.

There are people who say that you are going to have a board of control, and the people who do the controlling should not come from the same class as those who control. They say that no banker should think of any other selfish motive. I think that even a banker might know more about centralized banking than Father Coughlin. I think that even a banker might have the interests of the general community at heart. I think there is just as much intolerance and unreasonableness on the other side. When you get into questions of this kind it depends upon one's own slant, but I should like to lay down certain propositions which I think have to be taken into account when we look into this fact that the Federal Reserve Board is politically appointed and that the greatest powers are to be entrusted to them.

The first thing I wish to state as a fact is that there are plenty of instances, current instances, in which we have had independent and competent banking authorities who are not only politically appointed but who exercised their authority through the medium of a state owned central bank. I give you as an example of that kind, Sweden. The general policy of Sweden is generally regarded, both by bankers and economists, as one which has followed particularly enlightened policies. They have made mistakes, as has everybody else, but they have succeeded. When I compare this country's banking with Sweden's, I find it is impossible.

In the second place, I think it is unreasonable that a privately controlled state bank would not be subject to political pressure. I think the best thing to say on that is to suggest that you do not take my opinion on the matter but take the opinion of the chief economist, officer of the British Treasury, who would certainly be able to know whether you can put the screws on the privately owned bank. That appeared in Hawtey's work, "Trade and Credit." He points out, for example, that under any system a central bank, even though privately owned and controlled, is unable to control itself. For example, note issue and monopoly of note issue. Essentially it is true that the legislature has a club over the central bank and it is bound to be used under any system.

In the second place, I think the whole experience of banking history has shown that when a great national emergency arises, the privately owned bank is going to respond to the demands of the government in exactly the same way that the government owned bank does. Look all over Europe, including the Bank of England. Do you suppose in this country, that if there had not been a Federal Reserve Board and that the banks had merely been privately owned, do you suppose the banks would have refused to purchase the Liberty Bonds? Do you suppose they would have said no? Of course not! The legislature has a club and I believe that is true, but I think the banks would also have taken into consideration the patriotic consideration of the case.

In the third place I think we are not honest with ourselves if we don't differentiate between political appointees and those elected by bankers. For example, take Germany. Unquestionably behind it was a very bad, an undeniably bad situation. The private bankers were actually at the center of certain operations that were going on. They were in favor of the thing because it was to their advantage. We know it is unquestionably the fact. But in our own history, look around. Inflation, as we now regard it from 1921 to 1929 was a fact. Would anybody be prepared to say that the reason why we had that unsound expansion, particularly in the late years of the period, was the reason we had a politically appointed board that fought the wise desires of the banker-controlled Federal Reserve banks. I have heard of a person by the name of Charles Mitchell in that connection. If you look around now, look at the people as opposed to politically controlled banks. Look at Mr. Eccles. I believe he is a banker; I believe he is really a livestock man. He says the same kind of thing that the economist says. We usually try to read him out of the fraternity.

Is it true that everybody chosen by the bankers has wisdom and that everybody appointed by the government is dumb? I think there is one thing the bankers of the country ought to realize. There is a great deal of loose talk about the lessons to be learned from the first and second banks of the United States.

Any powerful central bank is going to raise hostility against it. The question is what are you going to do about it? Jackson says: "We will abolish the bank. If it is privately owned it is a monster; it is strangling the country." Very much like Father Coughlin. It has been a fact that the politically appointed board has served as a buffer. We put a dirt farmer on the board in place of a banker and it did not make the slightest difference in policy, but in a political way it worked. I do not think the danger in America is that we are going to abolish the Federal Reserve. I think there is a danger which might become real, when you listen to Father Coughlin, that is, that the Federal Reserve will actually be bought by the government, so as to drive banker influence out of the thing entirely. It seems to me the only possible way to meet the situation is—we are going to have the Federal Reserve banks owned by the bankers, but that the board will be political. I would say that some institution, such as some board politically appointed is a necessary compromise, particularly under the American situation. I do not believe experience has shown that it is inevitable that the people appointed to such a board would be incompetent.

The thing I think is to admit, in the light of the situation, that centralization of authority is desirable, and everybody to accept the contribution of further responsibility to the one central body we have, the Federal Reserve Board, and to make up our minds that we are going to hold to that responsibility.

That leads to the next question. One of my colleagues and I were discussing what sort of topics we were going to talk about, and he asked me this question: "Are there some automatic checks in this act to put checks on these people regardless of whether they want to be checked or not?" I should simply like to say this: That the history of attempting to put automatic checks into legislation is not a good thing, nor is it a happy one. For example, in the early days of banking history we did not abolish commercial banks by insisting that keep 100 per cent against deposits. The history of banking shows that there will be abuses. We will stop that. They can have no expansion beyond the actual reserves they have. Over the 19th century there was a series of checks. Under the English system, however, when you reached a certain amount of note issue you could not issue any more unless each note was backed in gold. In Germany you could not issue beyond a certain number of notes. The National Banking Act was adopted because we had a period of unbridled note issue. It was thought if we limited the issuing of notes with Government bonds, it would stabilize things.

The first thing that has always been noticed is that no matter how clever we think we are in putting on these devices, there are new devices that turn out to be more troublesome than the thing we are trying to cure. For example, when you put through this requirement for 100 per cent reserve, you found you had more troubles on your hands then. I predict the same thing will happen this way. So when the note issue was controlled, we had the device of checks. Then you have the whole long experience in which you try to learn to regulate this new device which you had left out of that picture.

Then more than anything else you think ou have rigged up a fool proof system; therefore you forget about the necessity for control; you forget the necessity for discretion. For example, take the Smyth vs. Ames case. One of our automatic limits is that the central bank must have a certain reserve issue. If the Federal Reserve would just watch, you would also always act too late. Now so much for the real principle of having some sort of automatic break in the Act. I will say this for the Act itself: there has been brought for some years a proposal which would have the effect of putting an automatic brake on inflation, that proposal, as many of you know, is that the reserve ratios which were required of member banks would be changed in accordance with the rate of turnover of their deposits, on the theory that when its boom and the necessity for a brake is found to be desirable, we know that the deposits deposited to individual accounts increase and they automatically put a brake upon further credit expansion and vice versa. I will say this about that particular proposal. I have been inclined to favor it, although I admit there are certain crudities and probably, as it would work out, certain inequalities.

The reason I do not insist upon it is that in the Act of 1933 and this act is another weapon provided controlling the blame of credit reserve issues. Under the Act of 1933 and strengthened under this Act, it is possible for reserves to be raised or lowered to any ratio they want.

Supposing now we shall say that we are going to accept centralization, supposing we say that the experience with automatic controls has been such as to reconcile us to the necessity for leaving discussion in the hands of this centralized authority and supposing we assume that the centralized authority would be willing to put the brakes on, the question then comes: Will they be compelled to? Have they the weapons at hand to stop that kind of inflation? The answer is unquestionably "yes." You may stop the inflation; you have the weapons if you will use them. I believe that to be the case and the important thing to realize is that this bill if anything strengthens those weapons. The traditional weapon you are all familiar with: the rate of discount for one thing. The final authority of these Federal Reserve Banks has been in your hands in the Federal Reserve Board ever since the Federal Reserve Board and the Federal Reserve Banks were organized. They have always had power and subsequent legislation has only made it stronger.

We have another plan in the open market operations which made it possible for the Federal Reserve to dump on the market as much of government securities or any other acceptances as they may legally dump and clear out the easy money.

So the Federal Reserve has these three weapons to which I am calling your attention. This power on the part of the Federal Reserve banks permits them to change the reserve ratios; in other words, if it should turn out at one time that the Federal Reserve banks haven't enough bonds to sell, they can do directly and arbitrarily with these three weapons now in hand what they wish to do. They can change the rediscount rate to any percentage they want. Look at Germany. They had a 98 per cent rediscount rate and still everybody was borrowing.

But there is a rate of discount at which it does not pay people to borrow money. It may be 8, 10, 12, 15, 40, or 50 per cent, but it will be a rate that will stop if used. An interesting thing is this, that much of the discussion with respect to this bill has come from bankers and from others who do not like this control of reserve provision on grounds which I must say strikes me as feeble. For example, I just read a pamphlet by Anderson of the Chase National Bank, New York. He says: "The trouble is that it will hit the banks unequally." What of it? If some banks have deficient reserves, that is one way you stop it. I think it is typical of the confusion in the discussion that has been had with respect to the bill that the bankers who talk about the danger produced against the weapon which may be turned out to be necessary and in the control of the legislature. Instead of having discussion of the things that really matter, for example, liquidity, which is little discussed, although I did notice that Congressman Tolan did say something about real estate provisions, I think we ought also to discuss the inflation possibility. What do we get in these talks? A lot of talk and a lot of it loose, about the control of inflation, the danger of putting power in the hands of the Federal Reserve Board.

My own opinion is this that we have got to have widespread in the community and particularly in the banking community, an understanding of the affairs that make for inflation. We have to have an understanding of the weapons that can be used to stop inflation and the way to use these weapons, and most of all a firm and unwavering resolution to support constituted authorities when they are trying to use those weapons. When they come to use them, what is going to happen is that the reactions that follow will be attributed to their board instead of the previous board. I do not think that the danger is that the board will be spineless in using these weapons when the time comes. My fear is that they will be encouraged to use their spinelessness, and in this I must say that I make my guess that they will be encouraged by some economists.

The danger seems to be that we are to have inflation. We ought to realize why it won't be because the external details of the bill are bad and cannot be managed. The blame will be ours and ours alone. Thank you.

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PRESIDENT FOUQUETTE: That speech creates a desire to hear more. On behalf of the Association, I thank you, Mr. Marget, for your interesting talk.

And now Mr. Duncan has some announcements to make.

SECRETARY DUNCAN: You will note that suggestion has been made that those of you who are interested in the round table discussions on the subjects presented by the three men from the University will have an opportunity of participating in the luncheon and the round table discussion at Minnesota Union this noon. This was brought about through the kindness and faithfulness of Dean Stevenson. The luncheon is called for one o'clock. Immediately after the close of the business session today.

PRESIDENT FOUQUETTE: The subject of the next speaker is the Wheeler-Rayburn Bill, presented by Mr. Frederick B. Garver, Professor of Economics, University of Minnesota. Mr. Garver.

The Wheeler-Reyburn Public Utility Holding Company Bill

By Frederick B. Garver

The Wheeler-Reyburn Bill is, according to the official copy that I have before me, which was introduced in the Senate by Mr. Wheeler, a bill to provide for the control and elimination of public utility holding companies owning or marketing securities.

This is a somewhat unusual bill; it is unusual in several respects. First: It is unusually drastic. Second: It is unusually partial because it prohibits for two industries, gas and electricity, types of organizations not prohibited to similar businesses, the telephone and transportation. Third: It is unusual because it recites in the opening lines a justification for the action taken in the bill.

What are the reasons set out as justification for the virtual abolition of the large holding companies? Mostly they are the familiar criticisms that Senator Norris and others have been urging against the electric industry during the past decade. In the first place, there is too much concentration of control of two industries that provide a vital necessity of life. Perhaps there is, but one may doubt whether the control is more centralized than the control of the production of automobiles, aluminum, or steel.

In the second place the complicated structure of the holding companies has given rise to unsound securities. Probably this is correct but although the stock market record of holding company securities is pretty bad it can scarcely be worse than the record of urban real estate companies.

In the third place, the holding companies are charged with writing up the property values of the companies they have taken over, which they undoubtedly did. It is further asserted that these write-ups have been made the basis of over-capitalization and further that the added securities have become a burden on the consumers. Senator Norris is especially insistent on this burden in his speech on June 12. Here there is a complete lack of logic. The senator knows, or ought to know, that capitalization is not the basis on which commissions and courts determine the fair value of the property, especially holding company capital. In fact the courts have expressly stated that the amount of stocks and bonds issued by an operating company are not proof of fair value. If this were all that one could say against the holding companies, the answer would be: Let the state commissions get busy and regulate according to the law of the land.

In the fourth place, it is charged that the holding companies through the use of construction and engineering subsidiaries have increased the costs of both property and operations. Again there is much evidence to show that this has been done in many cases. But one is hardly in a position to say that this has been universally the case. Moreover it is in point to reply that the valuation of capital expenditures, of physical property, is entirely within the control of state commissions subject to the rules for determining fair value as laid down by the courts. The charges made by holding companies for management are not so easily controlled, because only with difficulty can a commission prove that they are excessive and it cannot cause the officers of a foreign holding company to appear before it nor compel them to produce their books.

We may summarize by saying that there are three main counts in the indictment of the holding company. One: They are an unnecessary complication in the business. Two: They have issued unsound securities. Three: They have prevented the price of electric current from falling as much as it should have fallen in the past 15 years.

Of course the defenders of the utilities also have their answers. To the first count —that of unnecessary complication—they reply that state laws, numerous existing corporations and local franchises have made consolidation and merger difficult. They justify the combination of widely scattered concerns as diversification of investment. They admit that often there was no further justification than the fact that the holding company directors saw an opportunity to acquire properties advantageously, in short, that the holding company is often used as an investment trust.

The second count—that unsound securities have been issued—is admitted, but it is minimized. It is said that utility men, like other business men, were over optimistic during the twenties.

On the final count—that of overcharging—the reply is more diffuse. It is shown that electricity has been constantly falling in cost to the consumer. It is shown that the cost to the domestic consumer in the United States is only slightly higher than in England where coal is more accessible and the consumers are denser. They also assert that the holding companies have performed a valuable service by coordinating and combining small properties into larger systems, by providing experts in management and engineering. This last contention is admitted by the critics and, as we shall see, an attempt has been made to save a part of the holding company structure.

Another characteristic of the bill is its partiality. It attacks the holding company only in the fields of electric light and power and natural and artificial gas. The other great public utilities, transportation, and the telephone and telegraph, are not mentioned. The apparent advantages of nation-wide or region-wide integration in communication probably forbade drastic action. The course of domestic rates for electricity in the past 15 years compares favorably, however, with the course of telephone rates.

The third characteristic of the bill is its drastic character. It defines as a holding company any company that owns as much as 10 per cent of the voting stock of another public utility or of a company that holds other public utilities. It also states that a holding company is any company that controls a public utility—a vague provision—and it gives the SEC power to determine when this control exists.

From next September to 1942 the holding companies are to live in a condition of surveillance. They must all register with the SEC. The companies must file with the SEC a long list of facts concerning their business relations including such matters as terms of underwriting agreements, names of owners of 1 per cent or more of stock (if known) construction contracts, service contracts, balance sheets, income accounts, etc.

The SEC has the right to grant or to withhold authority to issue securities and, with certain exceptions, it is provided that no securities shall be issued by any holding company except as "appropriate in the public interest or for the protection of investors or consumers" (p. 30 11. 89). Bonds may be issued only when secured by a first lien on the physical property of the company or secured by an obligation of a subsidiary which obligation is secured by a first lien on the physical property of the subsidiary. Moreover, the commission shall not permit issuance of any security unless (1) the security is adapted to the financial structure of the company and its subsidiaries; (2) the security bears a proper relation to the sums prudently invested in the property; (3) the security is necessary to the efficient operation of the business, and (4) the fees and commissions are reasonable.

There are also restrictions on the scope of holding company investments. It is unlawful for a holding company to acquire an interest in any business other than a public utility. Acquisitions of interest in inter-state gas mains and in other utilities are also restricted.

After 1938, as stated in the Senate bill, the screw is to be given several more turns. It is made the duty of the SEC to examine the corporate structure and the property of every registered holding company and subsidiary to determine the extent to which the corporate structure can be simplified, unnecessary complexities removed, voting power equitably distributed and the properties and business confined to a single geographically and ecoomically integrated public utility system. After January, 1938, or about two and one-half years hence, the SEC must require every holding company and all subsidiaries to divest themselves of all holdings to the extent that each holding company shall control only a geographically and economically integrated unit. After January 1, 1938, the commission may order a holding company or subsidiary dissolved if it unduly complicates the structure of the holding company system or is detrimental to the proper functioning of an integrated system. Promptly after January 1, 1940 (1942), the SEC must cause every holding company to cease to be a holding company. However, the SEC, on terms and conditions which it may determine, may permit a company to continue if the Federal Power Commission shall certify that the holding company relation is necessary under the applicable state or foreign law for the operation of an integrated system extending into two or more contiguous states or into a contiguous foreign country.

These are the provisions that have caused people to say, in figurative terms, that the bill provides for the immediate apprehension of the holding company as a criminal, for subjecting it to torture for a period of years and for its ultimate execution. The bill is at one and the same time a pronouncement of a sort of medieval anathema against the holding company and a bill of attainder.

What will probably happen if the Senate bill passes the House?

1. Some of the holding companies will probably qualify as necessary for the economical operation of an integrated unit. However, even these may be forced to simplify their corporate structures even if they operate solely within such a territory.

But in the case of such concerns as the North American and the Standard Gas and Electric, the top holding company will be put out of existence as a control company.

How will the equities be disposed of? If the Standard Gas and Electric were forced to part with the Northern States of Delaware and its other subsidiaries and the North American to get rid of the securities of their Cleveland and other property and liquidate, how would the holders of the securities of the holding companies fare? If the process were carried on gradually there might not be a great loss. At present, of course, these securities are at relatively low prices. Assuming a recovery, however, what would happen? I think it may be said that the holders of the securities of the holding companies would suffer large losses. This point has been repeatedly brought out in congressional debates and elsewhere. The usual answer of the advocates of the bill is (1) that the losses must be borne for the sake of disburdening the consuming public of the heavy charges imposed by the over-capitalization of the companies; (2) that the investor who loses must blame the holding company that issued the securities.

2. The holding company may cease to be a holding company in the eyes of the law before 1942 by diversifying its holdings to the point where it does not own as much as 10 per cent of the voting stock of any one public utility. It would have to divest itself of all other agencies of control such as interlocking directorates. The holding company would then become an investment trust. The same group of holding companies—the big 10 which were said to control three-fourths of the electrical business of the country—might still own about as much stock as before. But there would be no control, no fees for management or supervision of construction, or sale of fuel or financing would flow into the treasuries of these investment concerns. Of course their operating expenses would likewise fall. Probably their stocks would not go back to the relative level of 1929. But it is doubtful if these stocks would occupy the same place as they did in earlier years, even though the Wheeler-Rayburn bill were killed in the House or so amended as to permit the holding companies to continue.

In the first place the era of rapid expansion of electrical plants is probably past. The uses that made possible the tremendous development of the 15 years before the depression were industrial and not domestic. In 1929, not over 13 per cent of the output of central stations was consumed by domestic users. That this industrial load should continue to increase at the same pace as during the twenties is highly improbable. It may even decline if higher rates are forced for industry by reducing domestic rates. There is also the competition of the modern Diesel engine as a source of power to be considered.

The second factor that may well prevent a relative recovery of holding company stocks is stricter regulation of rates and the building of competitive plants by the United States and local governments.

In the latter part of the decade 1920-1930 many statisticians projected the curves describing gross income, net earnings and other measures into the future on the assumption that what had been going on in the past—the growth of business, increase of earning, dividends—would go on in the same manner in the future. This procedure had no validity. The period 1921-1929 was a period of relatively regular advance in all lines of business. It was the recovery and boom side of a business cycle. Such curves are valid only if constructed from one point in one business cycle to the corresponding point in the next cycle. Moreover, recent studies have shown that most types of manufacture rise to a peak and then decline. Production for an entire industry does not go on increasing forever, neither does it rise to a plateau and then run along on the level. In short, the potential future earnings of holding companies, in the gas and especially the electrical industry, were often incorrectly forecast and they were over-estimated even had there been only a minor recession of business in 1930.

The means of enforcement of the act include the usual resort to the courts. The act evidently rests so far as its constitutional authority is concerned on the power of Congress to regulate inter-state commerce. So far as some of the companies are engaged in transmitting electricity and gas across state lines are concerned, there can be little doubt, it would appear, about the right of Congress to regulate. Whether the transaction or carrying on of business by use of the mails gives Congress the right to regulate the businesses themselves is a question that the speaker will not undertake to answer. It is a question for lawyers and not economists.

There are additional regulatory provisions in the act, other than those already mentioned. One of the alleged abuses said to have been practiced by holding companies had to do with service and management contracts. The holding companies organized engineering and management subsidiaries or departments. These departments undertook to supervise construction of new plant, to solve technical problems and to provide management for local concerns. The arrangements were different with different concerns, and the charges varied widely. The local operating concerns entered into contracts to pay for these services. Commissions sometimes objected to the charges. These contracts are now forbidden so far as holding companies are concerned. I quote:

"Section 13 (a). After April 1, 1936, it shall be unlawful for (1) any registered holding company or any subsidiary thereof other than a mutual service company, . . . to enter into or take any steps in the performance of any service, sales, or construction contract by which such company undertakes to perform services or construction work for or sell goods to, any associate company thereof which is a public utility or mutual service company (p. 58 1. 21-25, p. 59 11. 1-7)."

You will note that an exception is made for a mutual service company. By that is probably meant a company owned and operated for the benefit of a number of operating companies. I know of the existence of one such mutual company and there may be others. They would furnish about the same service as the engineering or management departments of the present holding companies. But any profits that they may make are returned to the operating companies. Such mutuals are allowed.

The exception of the mutuals in the bill is undoubtedly for the purpose of attempting to secure for small local concerns the benefits that have admittedly accrued to such concerns from the supervision of them by a staff of well trained experienced men attached to the holding company of which they are subsidiaries. The bill provides for the regulation of the mutual service companies by the Federal Power Commission.

How will the bill, if it becomes a law, affect the operating companies? Will it strengthen them or weaken them? To give a final answer to this question with assurance is probably impossible. Certain large concerns like the Detroit Edison, Southern California Edison, appear to have gotten on very well without any control by a holding company. Many small companies, it is reported, have not been well run until taken over by the holding companies. The authors of the bill recognize this possibility and attempt to provide against it by permitting mutual service concerns to operate. But when once separated from holding companies some regional concerns will undoubtedly slip into inefficiency. One thing can, however, be said and that is, it will be difficult for a holding company to reduce the assets of an operating company for its own benefit.

How will the domestic consumer fare under the bill? It is my opinion that it will make very little difference to the consumer. In the first place, his expenditure for electrical current and gas is not a big item in his budget—$30 or $40 a year. A larger use of electricity is, without question, desirable. But it does not rank in importance with health, education, police and wage levels. I do not believe the abolition of holding companies will reduce any consumer's bill appreciably.

In my opinion, which I give for what it may be worth, the holding companies grew up because of conditions already existing in the industries and because state regulation was far from successful. Where over-charging of the consumer existed, or where what the supporters of the bill regard as over-charging existed, it has not been due primarily to the holding company. It has been due to the inherent difficulty of regulation which is partly owning to our federal system of government, partly to certain legal principles well established in our American system and partly to the difficulties of administration of laws of all sorts in this country.

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PRESIDENT FOUQUETTE: On behalf of the association, I want to thank Dean Stevenson and his co-workers, Professors Marget, Stehman and Garver for their interesting talks. I understand that the president of the South Dakota Bankers Association is in our midst and I should like to ask him to come to the front and be presented. Mr. George C. Fullinweider.

MR. FULLINWEIDER: This is rather unexpected, gentlemen, but I feel that it is very fitting that I should come to Minneapolis to attend the forty-sixth anniversary of your institution as an organization. I consider the Minnesota Bankers Association a younger brother of ours. We celebrated our fiftieth anniversary last year. We organized the first bankers' association in the United States in 1884. For several years, when North and South Dakota were a territory, from 1896 to 1901, due to dividing the territory in two states, our association was rather inactive, but in 1901 we started out on a good sound basis.

On the 22d, 23d and 24th of May we held our fifty-first convention in Sioux Falls, and at that convention there were only three—two besides myself—who were at the convention in 1901. There has been such a change in the personnel of banking throughout the whole Middle West, I will venture to say there are very few here today who were at the Minnesota convention in 1901.

I wish to extend to you the felicitations and best wishes from your older brother, the South Dakota Bankers Association, and I thank you for the privilege of attending.

PRESIDENT FOUQUETTE: Gentlemen, the next order of business is the presentation of the resolutions by Chairman Lundsten.

Resolutions

O. W. Lundsten, Minnetonka State Bank, Excelsior (Chairman); A. O. Stromseth, Atwater State Bank, Atwater; H. O. Dilley, First National Bank, Northfield; H. N. Burnham, First National Bank, Jackson; A. P. Garnatz, State Bank of Vernon Center.

Your committee, appointed by the president to draft suitable resolutions to be presented to this 46th convention of the Minnesota Bankers Association, hereby presents for your consideration and adoption the following declaration of principles:

First, we reaffirm our adherence to the advocacy for the existing system of unit banking and for the dual system of state and national banks as the system best adapted to the commercial, industrial and agricultural interests of all the people and we strenuously oppose all provisions of the proposed Banking Act of 1935 or any amendment thereto, which in any way threatens the elimination, existence and perpetuation of independent banking in the United States.

Second, that we are firmly of the opinion that if the Federal Deposit Insurance Corporation is to continue and maintain its solvency a close coordination between state and FDIC supervisory departments should exist to the end that banks will be more uniformly operated and uniform systems of examinations and supervision will have the tendency to bring the desired results.

We are firmly opposed to any political or centralized control of our banking system and to that end we approve in substance Titles I, and III of the Banking Act of 1935. We believe it would be for the best interests of the banking business and to the people of our country that no immediate action in the passage of Title II should be taken, but that it be delayed for further study and consideration.

We believe that Title I with certain modifications should be passed prior to July 1, 1935, and that the Title as passed by the House of Representatives should be passed by the Senate, which eliminates the necessity of state banks joining the Federal Reserve System in order to continue as insured banks in the FDIC, but that the fixed annual assessments should not exceed 1/16th of one per cent.

The postal savings system in the past few years has developed into an unsatisfactory competitor and the interest paid upon savings deposits at the present time is more than is justified under existing conditions and we are of the opinion that a greater differential should exist between the rate paid on postal savings and the rates paid by banks on time and savings deposits and that the rate of interest required of the banks to be paid on postal savings be proportionately reduced.

We believe that a nation's greatest assets are happy, contented homes and firesides, and that her greatest strength is the morale of her people. That every man's home should be his castle where none dare molest or make him afraid. We further believe that high above temporary rules of alphabetical codes of RFC, NRA, AAA, and all others, should be permanently emblazoned the letters H-O-M-E.

Whereas, agriculture plays so large a part in the development not only of our own state, but of the entire Northwest, be it resolved that we, both as individual bankers and as the Minnesota Bankers Association, pledge ourselves to exert our influence at Washington that Congress shall give to agriculture the same earnest thought and consideration that it gives to industry and labor.

We are not unmindful of the excellent services to the agricultural interest of Minnesota given by the Department of Agriculture of our State University and every assistance should be given by the bankers of Minnesota in continuing the fine cooperative spirit that has been shown in the past.

We exceedingly regret that Dr. Andrew Boss is retiring from active work in connection with the University of Minnesota and appreciate keenly the valuable service given by him over a long period of years to the agricultural interests of our state. We wish to express to him our sincere appreciation with the hope that he may enjoy for many years the rest that he has so justly earned as an important contributor to the science of agriculture and its successful development in the State of Minnesota under his supervision.

We wish to thank the Clearing House Association of Minneapolis for the part they have played in furnishing the wonderful entertainment for this convention and we appreciate their willingness to do more than their part to make this convention such a success. We also wish to thank the various speakers who have appeared upon our program and are grateful to them for the messages they have brought to us.

We wish at this time to extend our best wishes to Mr. Baldridge, chief national bank examiner for the 9th District, who unfortunately has been confined to the hospital for a number of weeks, and we hope for his speedy recovery and that he may soon be back at his regular vocation and enjoy good health.

O. W. LUNDSTEN

We express to Commissioner of Banks Elmer Benson and to the Comptroller of the Currency J. F. T. O'Connor, our appreciation for their desire to discourage the applications for bank charters in towns that are now amply supplied with banking services to the end that Minnesota will not become over-banked and with the thought that charters will only be issued when there is sufficient demand and ample business in the territory to warrant additional banking facilities. We pledge them our support in this regard.

RESOLVED, That our Association express its thanks and appreciation to the president of our Association, Mr. Dan J. Fouquette, for the admirable manner in which he has presided over its affairs and in taking care of the interests of our Association during the past year, and to our efficient and capable secretary, Mr. William Duncan, Jr., for his clear, intelligent and untiring work in connection with his office and we congratulate him on the very pronounced success which has crowned his efforts.

* * *

MR. LUNDSTEN (Chairman of Resolutions Committee): I move the adoption of these resolutions.

PRESIDENT FOUQUETTE: I have here the resolutions, gentlemen. What is your wish?

W. F. KUNZE: I second the motion.

PRESIDENT FOUQUETTE: The resolution has been presented and seconded. All in favor say "Aye"; contrary "No." Motion carried.

PRESIDENT FOUQUETTE: We come now to consideration of our Constitution and By-laws. I should like to call on Mr. Comaford.

MR. COMAFORD (Attorney, Minneapolis): The resolution regarding the Constitution provides for a re-writing of the entire Constitution so as to line it up in the order of the various things covered and for that reason the resolution regarding the Constitution reads in this fashion:

Constitution

BE IT RESOLVED that the Constitution of the Association be amended to read as follows:

ARTICLE I
Name

The name of this Association shall be the "Minnesota Bankers Association."

ARTICLE II
Membership

Section 1. Any National or State Bank, Trust Company or Savings Bank, located in the State of Minnesota may become an active member of this Association upon the payment of such annual dues as shall be provided for in the By-Laws.

Section 2. Any bank or trust company located outside the State of Minnesota and any corporation, firm or individual within or without the State of Minnesota, dealing in bonds, mortgages or commercial paper, may become an associate member of this Association upon invitation from the Council of Administration, upon the payment of such annual dues as shall be provided for in the By-Laws.

Section 3. Honorary members may be elected by the Council of Administration.

Section 4. Honorary and Associate members shall be entitled to enjoy all the privileges and courtesies of the Association, including Association and Group meetings, except the right to vote, to hold elective office, or to participate in the benefits of the protective work of the Association.

Section 5. Any member may be expelled from the Association upon a two-thirds vote of the delegates present and voting at any meeting of the Association.

Section 6. The word "Member" as hereinafter used in the Constitution and By-Laws, means a member which has paid its required annual dues to the Association.

Section 7. Members shall be organized in units, termed "Groups," which groups shall correspond territorially to the Congressional districts of the State of Minnesota as they were organized immediately prior to the Reapportionment Act of Congress of 1930, and only members of this Association shall be eligible to membership in such groups.

ARTICLE III
Meetings, Representation and Voting

Section 1. There shall be an annual meeting of the Association and such other meetings as may be called by the Council of Administration. All meetings shall be held at such time and place as the Council may determine.

Section 2. Such meetings shall be composed of one delegate from each member of the Association, which delegate must be an officer or director or trustee of the institution, or a member of the firm which he represents. No delegate shall represent more than one member.

Section 3. In the election of officers and in all other matters upon which a vote is taken at any meeting, each active member shall have one vote only, to be cast by its properly accredited delegate.

Section 4. Delegates shall vote in person; no voting by proxy shall be permitted. All votes shall be vive voce, unless otherwise ordered, except on elections which shall be by ballot; any delegate may at any time demand a division of the house.

ARTICLE IV
Officers and Administration

Section 1. The Administration of the affairs of the Association, not otherwise delegated, shall be vested in a Council of Administration, consisting of the President; Vice President; the retiring President; the Secretary; the Treasurer; and one member elected (subject to the approval of the annual meeting of the Association) from each group. All members of the Council except the Secretary, shall be officers of active members. Members elected by the groups shall be officers of active members of the group by which they are elected and shall reside in the territory of that group.

Section 2. The term of office of elective members of the Council of Administration shall be three years, expiring at the close of the annual meeting of the Association in the following years:

Those elected by the 1st, 2nd, 3rd and 5th Groups shall expire in 1935, and every third year thereafter.

Those elected by the 4th, 6th and 10th Groups shall expire in 1936, and every third year thereafter.

Those elected by the 7th, 8th and 9th Groups shall expire in 1937, and every third year thereafter.

Section 3. Where an elective member of the Council of Administration shall have served one-half or more of a three-year term, he shall not be eligible to succeed himself.

Section 4. The officers of this Association shall be a President, a Vice President, a Secretary, and a Treasurer.

Section 5. The President, Vice President and Treasurer shall be elected by ballot at each annual meeting, and shall serve until the next annual meeting, and until their successors are elected. Nominations for President, Vice President and Treasurer shall be made by a Nomtinating Committee consisting of all of the group Presidents and the President of the Association. The committee shall elect from its members a chairman and a secretary and meet to make its nominations at least 30 days before the annual meeting. Nothing in this section shall be construed to prevent other nominations from the floor of the annual meeting. All nominations shall be made at a regular session of the annual meeting at least 24 hours prior to the election of such officers.

Section 6. If any officer of the Association, excepting the Secretary, ceases to be an officer of an active member, or if any member of the Council of Administration, elected by a group ceases to be an officer of an active member of that group, or to reside in the territory of that group, his office shall thereupon become vacant. Any office becoming vacant thereby, or by any other cause, shall be filled for the unexpired term by the remaining members of the Council of Administration.

ARTICLE V
Amendments

Section 1. This Constitution may be altered or amended at any meeting by a vote of two-thirds of the delegates present and entitled to vote; provided, however, that no vote on any proposed amendment to the Constitution shall be taken prior to the next day following the introduction of such proposed amendment at a regular session of such meeting.

* * *

MR. COMAFORD: The first change in the Constitution is made necessary by the fact that you want to retain your ten groups, as your old constitution provided that your groups be the same as the Congressional districts. This would have reduced them to nine and the effect of the amendment will be to retain them as in the past.

Now the section in regard to the meeting date of your groups is new and is made necessary by the fact that some of your groups meet before the convention and some afterward, and if it were not for the change, they would continue to meet at different times. This definitely fixes the year in which the representative from each group expires.

These proposed amendments were read at a previous meeting and are, therefore, available for action today.

PRESIDENT FOUQUETTE: Approving amendments to our Constitution requires a two-thirds vote of the voting body, and the voting upon the Constitution and the By-laws will be voted upon separately. How do you wish to vote on the amendments to the Constitution, as a whole or separately?

MR. DAN MAHONEY: As a whole.

PRESIDENT FOUQUETTE: Will someone move the adoption of the amendments?

G. A. HAVEN: I move the adoption of the Constitution as read.

MR. A. B. LARSON: I second the motion. (Carried).

PRESIDENT FOUQUETTE: Any discussion?

MR. PEYTON: I would like to ask the question why they are limiting nominations from the floor. As I hear the way it is read, it states that nominations have to be in 24 hours before a meeting. If we arrive one evening, and if there was a disposition to nominate from the floor, it would have to be done the next morning. That really puts us back to the original nomination.

PRESIDENT FOUQUETTE: That is a fair question, I think. I should like to ask Mr. Duncan to answer that.

SECRETARY DUNCAN: Several years ago action was taken to recognize the smoker as a part of the official convention. That was done for the purpose of getting away from detail that it had been necessary to take up at the opening of the regular convention the following day and to get away from reports. So the smoker is recognized as a part of the official proceedings of the convention. That would take care of the question, Mr. Peyton, that you asked as far as presenting the nominations from the floor 24 hours ahead is concerned. It would hardly be 24 hours, but would give practically a day to consider nominations from the floor the evening of the smoker. That is just explanatory of the situation so far as the actual operation of the convention is concerned. Your point is a good one where we are confining the convention to two days. This year it is three days. It was taken up at the regular session of the convention yesterday. However, if the convention is cut down to two days, it would be necessary then for nominations to come from the floor of the convention the evening of the smoker. Official acts have been performed at smokers, which have been recognized as an official part of our convention.

PRESIDENT FOUQUETTE: Does that answer your question, Mr. Peyton?

MR. PEYTON: Yes, thank you.

F. H. KRIZ: Have we always been limited to one delegate from each bank?

SECRETARY DUNCAN: One voting delegate.

PRESIDENT FOUQUETTE: Is there any further discussion? Apparently not. All in favor of the amendment as read for adoption, please signify by saying "Aye." Contrary "No." Carried.

We now come to the consideration of the amendments to the By-Laws.

Amendments to By-Laws

MR. COMAFORD: There are three proposed amendments to the By-Laws, as follows:

Section 1, j, of Article II, refers to the duty of the Secretary to furnish each member a copy of the convention proceedings.

PRESIDENT FOUQUETTE: How do you want to act on these amendments?

MR. COMAFORD: Separately, as they are separate resolutions.

J. A. ALLEN: I move we vote on them altogether.

MR. CRAIG: I second it. (Motion carried).

PRESIDENT FOUQUETTE: Will someone move the adoption of the amendments as read?

FRANK P. POWERS: I move their adoption.

J. DANIEL MAHONEY: I second it. (Motion carried.)

M. E. UGGEN: I would like to ask a question on the second proposed amendment. That referring to our district, No. 2, requires that our member of the Council be elected at the district meeting. We haven't had our district meeting. The member's term expires at this time. Will we be without a member or can we elect one from the floor?

SECRETARY DUNCAN: The members of the Council are nominated by the district. That is a provision under our old By-Laws. Then the nominations are made at a regular convention and the nominee selected recognized by the Convention is elected by the Convention. In the Second district your officers overlooked the fact it was necessary to nominate. Therefore, there is a vacancy existing under the rules of the convention, and the Council of Administration has the right, in fact, it is mandatory, for it to fill that vacancy. We will give you representation this afternoon. Suggestion has been made that instead of the Council taking it upon itself to select a member for you, that you men here representing the Second district, get together and suggest to the Council whom you would like that person to be. That would be fairly representative, if there are a number of the banks represented here. Otherwise, it is incumbent upon the Council to appoint a member this afternoon.

The last couple of years the machinery has been thrown out of kilter. I was president of the association and I resigned before the expiration of my term. The vice president was elected to succeed me as president, and a new vice president was elected in his place by the Council. Consequently there were vacancies there and in some instances members moved out of the district into other districts and we had resignations.

It was very indefinite under the old set-up as to the expiration of the staggered terms. Consequently, we have a number of expirations this year. This new set-up will clarify the situation. It was a contingency that had never occurred before and will take care of any contingency that might arise in the future. In your second district you should be getting together to present some name to the Council for consideration this afternoon. You will not be without representation.

PRESIDENT FOUQUETTE: Is there any further discussion? Apparently not. Those in favor signify by saying "Aye." Contrary "No." Carried.

We will now have the report of the Nominating Committee, Mr. A. B. Larson:

A. B. LARSON: If you look at the program you will see that I am about the last. We are about to close the convention. I am sure it has meant a great deal to all of you, as it has to me, and especially to our able president and secretary to know that we are going to close what I dare say is the most successful convention the Minnesota Bankers Association has ever held. Of course that sets a high mark for the incoming executive council and the new officers to fulfill, or target to shoot at. But I think you will agree when you hear the proposed ticket and the report of the convention to know who the Council members are that are going to replace those going out. If you followed Mr. Comaford's report, you will notice four of the present Council members go out this year, and I am included. I cannot claim any honor for the success of this convention; it is due principally to our president, because I was appointed to fill a vacancy and have not spent a great deal of time in the association. I wish to say it has been a great pleasure.

Mr. Comaford has already explained to you how these men are nominated. He has explained the new proposal, and he has explained that the presidents of these ten groups through the state, which is divided into ten Congressional districts, are automatically the Nominating Committee. It makes it very democratic. I want to say right here that there was no influence used by either the president or the secretary on this committee or any suggestion whatsoever made. We went into that committee openminded and we organized our committee and they put me on as chairman. We proceeded in the regular work and we came to the ballot without any influence from anybody. I believe that arrangement of nominations is as fair as anything that can be made, as it gets every district in the state to back their president, and whoever they choose in the district is the man that picks the material to head your organization. The names of the people on that committee are as follows:

A. B. Larson, Faribault, 3d District; A. S. Newcomb, Minneapolis, 5th District; H. L. Harrington, Winona, 5th District; Guy F. Jensen, Minneapolis, 10th District; W. A. Putman, Duluth, 8th District; J. H. Tembrock, Ogema, 9th District; Edw. A. Olson, Starbuck, 7th District; I. J. Hauge, Blackduck, 6th District; F. A. Timm, Balaton, 2nd District.

We had one absentee at the meeting; there were nine of us. (See page 9 for report as presented at smoker.)

PRESIDENT FOUQUETTE: We will proceed to elect the officers in order; the first being the office of president. At this meeting there is still time for nominations of other nominees from the floor. I present the opportunity at this time for any other nominations from the floor.

MR. HOEL: Mr. President, I move that the nominations for the office of president be declared closed and that our secretary be instructed to cast a unanimous ballot for the election of William N. Johnson as the next president of our association.

MR. TALLAKSON: I second that motion. Carried.

PRESIDENT FOUQUETTE: Will the secretary cast the ballot?

SECRETARY DUNCAN: So ordered.

PRESIDENT FOUQUETTE: Mr. Matson, will you please escort our new president to the chair? (Which Mr. Matson did.) Gentlemen, your new president! (Applause)

PRESIDENT WILLIAM N. JOHNSON: Thank you. I had a speech prepared two years ago for just such an occasion as this. I have forgotten that speech entirely and I hesitated to prepare another one for this year. Seriously, I count it a distinct honor to be president of this association and I am very grateful to you members for giving me that privilege. I realize there is a considerable amount of responsibility that goes with it. I pledge myself to do everything I can to promote and to continue the good work of this association. We are 46 years old and there is a lot of tradition in this association. It has an enviable record; that record ought to be maintained without favoritism. Anything I can do to further the cause of the association on that basis, I will be glad to do. Thank you very much. (Applause)

PRESIDENT JOHNSON: Mr. Fouquette, will you stand up, please? You are now the past president of this association and it is my very pleasant duty to further express on behalf of the members of this association their gratitude and thanks for your services during the past year. Events of considerable importance to the banking fraternity and to our association have transpired. I refer to the state and federal legislation which we have had to contend with. Your stewardship during that period has not been found wanting. You have done your work ably and we will, in accordance with a long established custom of our association, further express that gratitude with a gift, not for its intrinsic value but as a reminder of your service to this organization. Our committee appointed to make this selection have had considerable difficulty. They found upon closely examining your affairs that you were so well endowed with chattels that there was nothing really you needed, but they did discover that in your new automobile you lacked a radio. And knowing that you wanted to keep abreast of current events at all times, they wanted you to have a radio for your car. I present you with an order for the best radio there is. Please accept it with the compliments of this association and our sincere good wishes for your continued success in the banking business.

MR. FOUQUETTE: Gentlemen, I thank you. To have served a large group such as the Minnesota Bankers Association and to know that a sizeable number has been pleased, is indeed gratifying. I accept the gift with the sincerest and keenest appreciation and I most heartily thank you.

PRESIDENT JOHNSON: Gentlemen, in accordance with your by-laws, we will now vote to fill the office of vice president for the ensuing year. The chair will accept nominations. We have before us the name of Oluf Gandrud, as nominated by your Nominating Committee. Are there any further nominations from the floor at this time? If not, will someone move that the nominations be closed for the office of vice president?

M. E. KALTON: (Wells) I so move. (Motion seconded, carried)

PRESIDENT JOHNSON: Mr. Gandrud, you are now elected to the office of vice president of this association. Will you come up, please?

MR. GANDRUD: Mr. President, Members of the Minnesota Bankers Association: I believe I would be nothing short of ungrateful if I did not feel called upon at this time to express my appreciation and to thank the members of the committee for offering my name and to thank the members of the association who elected me. It has been my pleasure to serve on the Council of Administration for the past two years. My association with these men has been a great pleasure to me. Therefore, I not only deem it a great honor but a privilege to serve on the Council this coming year.

PRESIDENT JOHNSON: We must now proceed to the election of a treasurer for the ensuing year. You have heard the Nominating Commitee's report. Are there any further nominations from the floor?

GEORGE A. HAVEN: I move the nominations be closed and that the secretary cast the ballot of the association for Mr. W. C. Krog, of the Farmers & Merchants State Bank of Stillwater for treasurer for the ensuing year. (Motion seconded, carried)

PRESIDENT JOHNSON: Mr. Krog, you are now the new treasurer of our association.

W. C. KROG: Mr. President, Members of the Association: I thank you very much for the honor that you have conferred upon me and I want to say that I shall try to serve you to the best of my ability. Thank you.

SECRETARY DUNCAN: Dean Stevenson is out in the lobby and says that he has several cars ready to take the members to the University who are going to attend the round table conference and luncheon.

PRESIDENT JOHNSON: It is necessary to confirm the election of a number of new council members, the first being from the 9th District, Mr. Berg. He has been elected by this district to serve on the Council for three years, the period expiring in 1937. It is necessary that this group officially confirm that election. Will someone make the nomination from that district?

A. A. HABEDICK: I wish to offer Mr. Berg's name.

A. B. LARSON: I second it.

PRESIDENT JOHNSON: It has been moved and seconded that Mr. Berg be nominated as a member of the Council of Administration for the 9th District. I put the question to you now. Those in favor, please indicate by saying "Aye"; contrary "No." Carried.

From the 7th District, Mr. N. H. Tallakson has been named for the term expiring 1937.

OLUF GANDRUD: In the absence of the president from our district, it is my pleasure to place Mr. Tallakson's name for the approval of the convention.

J. E. ODEGARD: I second the motion. (Carried)

PRESIDENT JOHNSON: And now from the 3d District, we have the name of H. R. Kurth.

A. B. LARSON: I place Mr. Kurth's name in nomination from the 3d District.

J. T. PETERSON (Le Sueur): I second the motion. (Carried)

PRESIDENT JOHNSON: And from the 1st District, Frank J. Thul.

GEORGE A. HAVEN: I have the pleasure of placing Mr. Thul's name for nomination. (Seconded, carried)

PRESIDENT JOHNSON: And from the 10th District, for term expiring in 1936, the name of Frank P. Powers.

J. A. ALLEN: I take great pleasure in placing the name of Mr. Frank Powers in nomination.

F. A. BUSCHER: I second the motion. (Carried)

PRESIDENT JOHNSON: And from the 2d District.

SECRETARY DUNCAN: It is not up to the convention to elect where a vacancy exists, under our by-laws, and the name presented by the delegates from the 2d District will be presented to the Council of Administration this afternoon.

F. A. TIMM: I wish to place in nomination the name of Mr. H. M. Burnham.

PRESIDENT JOHNSON: That will have consideration at the Council of Administration, this afternoon.

PRESIDENT JOHNSON: The 5th District will have consideration this afternoon also. If there is no further business to come before the convention, I shall entertain a motion to adjourn.

FRANK P. POWERS: I move we adjourn. (Motion seconded and carried.)

(Meeting declared adjourned at 12:25 p. m.)

Meeting of A. B. A. Members

A. J. VEIGEL, Minneapolis, presiding.

MR. VEIGEL: The first order of business of the Minnesota members of the American Bankers Association is to elect a successor to Mr. Veigel as a state vice president here to serve at the opening date of the A.B.A. to represent us.

OLUF GANDRUD: I would like to place in nomination Mr. Frank P. Powers. I am sure Mr. Powers is well deserving.

Motion seconded by Mr. Gillespie and carried.

MR. VEIGEL: The next order of business is to nominate a member of the Nominating Committee.

FRANK P. POWERS: Mr. Chairman, I wish to place in nomination the name of Mr. B. M. Peyton of Duluth.

Seconded by Mr. Bergman, and motion carried.

MR. VEIGEL: The next order of business is to get an alternate member of the Nominating Committee.

O. W. LUNDSTEN: I would propose the name of Mr. C. B. Brombach of Minneapolis, of the First National Bank.

MR. FOUQUETTE: I second the motion. (Motion carried.)

MR. VEIGEL: We come now to the time when we should select another member of the Executive Council of the American Bankers Association provided we get enough members to have another member on the board. Are there any nominations?

MR. J. J. MALONEY: Mr. Chairman, I would like to nominate Mr. A. J. Veigel, of the University State Bank, Minneapolis.

Motion seconded by Mr. Gillespie.

SECRETARY DUNCAN: The motion has been made and seconded that Mr. A. J. Veigel be elected as a member of the Executive Council of the A.B.A. contingent upon the building up of the membership to the required amount, that will allow us to have two members. Unfortunately our membership fell down and we lost one member. Last year the same question was taken before the membership, but the membership was not built up to a sufficient number to give us another member. The request came this year from the executive secretary of the A.B.A. to handle the situation in some way in the hope that we can get 35 or 40 more members. You have heard the motion in favor of Mr. Veigel's being elected to the executive council of the American Bankers Association. All those in favor, signify by saying "Aye," contrary "No."

Motion carried.

MR. VEIGEL: The next order of business is to nominate the Nominating Committee of the A.B.A. Council, one member from the Savings Bank Division, one from the Trust Division and one from the State Bank Division .

MR. MALONEY: I make the motion that Tom Wallace be retained as the member of the Savings Bank Division.

Motion seconded—carried.

MR. ODEGARD: I wish to place the name of Mr. Lundsten as the member of the State Division.

FRANK P. POWERS: I second it. (Motion carried.)

MR. HAVEN: I make the motion that Mr. C. F. Dabelstein of Rochester be elected as the member of the Trust Division. He has attended the meetings of the American Bankers Association regularly and I think we should honor him with election by this body.

LARRY O. OLSON: I second that. (Motion carried.)

MR. VEIGEL: And now we should elect the Vice President of the National Bank Division. I will entertain a motion on that.

C. B. BROMBACH: I move that Mr. L. D. Allen of Winona be elected the Vice President of the National Bank Division.

O. W. LUNDSTEN: Motion seconded. (Carried.)

MR. VEIGEL: Unless there is further business to come before the meeting, I will entertain a motion to adjourn.

MR. ODEGARD: I make the motion that we adjourn.

(Motion seconded—carried.)

The meeting of the A.B.A. was declared adjourned at 12:50 p. m.

COMMITTEE REPORTS

Agriculture

J. H. Gunderson, Blue Earth State Bank, Blue Earth (chairman); N. H. Tallakson, Bank of Willmar; W. J. Bohmer, Stearns County State Bank, Albany; G. O. Hage, Crookston Trust Co., Crookston; L. H. Briggs, Security State Bank, Houston.

Your Committee on Agriculture, in making the report this year, feels that about the general extent of its operation has been that of continuing the program of education and being of help to the various units of the federal farm agencies in acquainting the farmers of the state through the local committees and county agent departments of the advantages that are available through the AAA and the Farm Credit Corp.

This year we witnessed the completion of the closing of one year of operation under the restricted acreage plan and also had a demonstration of the value of the farm warehouse loans, as well as benefits of long-term financing under real estate loans through the Federal Farm Credit Corp., through the Federal Land banks and the short-term financing through the Production Credit Corp. units.

During the year your committee has lent its support to plans instituted in the spring of 1935 to take care of the seed and feed loans in the drouth areas of the state through the help to be obtained through the federal and state agencies, and also in the fall of 1934 the giving of consideration to plans promulgated by federal agencies for the purchase of cattle in drouth areas.

Throughout the year through the active support of the University Farm School acting under, and cooperating with, the federal agencies and funds received from that source, has given much time and work to the matter of a protection of soil erosion and reforestation throughout the state. This work has brought in for attention considerable work and experiments in the various sections of the state and it is to be expected with the support of the various agencies and the agricultural department of the Minnesota Bankers Association that we can learn to perpetuate much of the good that is accomplished by these experiments.

In March of this year a meeting of the Agricultural Committee was held in Minneapolis and had as its guest for the day Mr. Dan H. Otis, director of the Agricultural Commission of the American Bankers Association and also Mr. Boss of the University Farm, as well as other people interested in the work of this department. At this meeting general consideration was given to the various farm problems and a survey of the action taken throughout the state by the various bankers' committees through these county units and the county agent offices indicated that the work of the department was being followed up throughout the state. Special attention was given, however, to the fact that due to the drouth of last year much of the work to increase acreage of alfalfa in the state had been undone and that it is desirable on the part of all communities in the state to rehabilitate as soon as possible the loss of acreage of this particular crop, and aside from giving general consideration to this, it was the opinion of the members present that all other details of the various plans for general improvement in agricultural support was having splendid help from every angle throughout the state.

During the winter the agricultural department of the American Bankers Association mailed to the various county agents and key bankers of each county bankers' unit a blank to be filled in to report definite accomplishments that were being carried on by their respective communities in support of the general program as outlined by the state association, as well as the American Bankers Association, and a resume of the reports received throughout the state of the accomplishments and work carried on is very interesting. On March 19 Dan H. Otis, director of the Agricultural Commission of the American Bankers Association mailed to your chairman a report of the rating of the state and we find an aggregate rating of 904.8 out of a possible 1,000 was given to this state for its agricultural work against a 639.1 rating in 1934, having registered a 100 per cent score for agricultural meetings by the banker-farmer groups and a 100 per cent rating for its work in special activities in support of the various banker-farmer movements and a 100 per cent score for having pursued a definite project, and this especially in connection with the work of the farm boys' and girls' clubs, county clubs, home demonstration and county agency cooperation.

J. H. GUNDERSON

Your committee in making this report, wishes to thank Mr. Dan H. Otis, director of the Agricultural Commission of the American Bankers Association, for his untiring efforts in promoting the work, in carrying on a complete contact with the committee and also for the help and interest that has been demonstrated by the University Farm School and the support we have received from them. The county agent has had an unusual amount of work during the last year and his value as a man in key position to administer unto the various farm units and benefits under the various government agencies has demonstrated conclusively the need for his services and we encourage all counties in this state to give consideration to the importance of this office in its midst, inasmuch as it is without question the one unit in each of the communities that will act as a contacting unit for the various activities from all departments, either state, interstate or national in character.

The sections of the state that were fortunate in having a reasonable crop last year certainly can report a very much improved situation with respect to the conditions in its community. Other sections of the state that were stricken by reason of the drouth or other elements to decrease crops, making it necessary to reduce its holdings of farm property, was severely penalized and it goes without question that this penalty is a severe handicap and prevented such sections from receiving the benefits of the increased prices, but it did teach all state and national farm agencies that it is a necessity to work together to have for immediate use agencies to take care of just such developments that follow crop situations as was experienced in the certain sections, so as to give the farmers affected immediate support in the vicinity to restore to them credit facilities that will enable them to rehabilitate and carry on in spite of the acute drouth, hail or windstorm conditions until they can bridge over and again care for themselves.

Recent developments in connection with national administration affairs and its effect on various farm problems and farm agencies are now in for special consideration by all groups interested in the outcome of the agricultural situation and we shall watch with interest the developments to follow, and ascertain insofar as possible the benefits and agencies that are most desirable and beneficial and we believe that members of the agricultural committee that are to follow will find this phase of the administration policies worthy of special consideration and attention and urge the support of such of the measures as have demonstrated their usefulness and worthiness and to bespeak for the members that are to carry on the usual splendid cooperation that has been given this committee by all the various agencies to support and rehabilitate and maintain Minnesota agriculture.

Bank Taxation

C. B. Brombach, First National Bank and Trust Co., Minneapolis (chairman); R. L. Griggs, Northern National Bank, Duluth; H. C. Robertson, First National Bank, Stillwater; Ralph W. Manuel, Marquette National Bank, Minneapolis; A. McC. Washburn, First National Bank and Trust Co., Minneapolis; R. W. Lindeke, Farmers and Merchants State Bank, St. Paul; Everett Stromgren, Chisago County State Bank, Center City; E. L. Mattson, Midland National Bank and Trust Co., Minneapolis; H. B. Humason, American National Bank, St. Paul; C. H. Berge, Citizens State Bank, Brainerd; J. J. Rupp, Windom National Bank; F. R. Schlichting, Drovers Exchange State Bank, South St. Paul; W. J. Browne, Wadena County State Bank, Wadena.

One of the most vexing problems that the bankers have had to contend with during the past several years is that of bank taxation.

Minnesota has been the storm center of agitation against the conditions as laid down by section 5219 of the United States revised statutes, and bankers of the state are very familiar with the supreme court decision in the case of the State of Minnesota vs. the First National Bank of St. Paul in 1927, in which it was held by the court that the method of taxing national banks was a direct violation of section 5219.

National banks are instrumentalities of the federal government, and as such, are exempt from taxation by the several states except as such taxation may be expressly permitted by act of Congress. It has from the beginning been the policy of the federal government to permit such taxation only under well defined limitations. This permission and these limitations are found in the section referred to, which provides alternative methods for state taxation of national banks as follows:

1. A tax on the shares.
2. Inclusion of dividends in the taxable income of the owner or holder.
3. A tax on the net income of the bank.
4. A tax on the bank according to or measured by the entire net income from all sources.

The Minnesota law provides for a general property tax on bank shares, and about six years ago the legislature appropriated $25,000 for the purpose of carrying out an investigation of the tax problem with a view of providing a legal basis for the taxation of national banks. The committee appointed, of which the late George H. Sullivan was chairman, spent its time, efforts and funds endeavoring to have the federal law amended rather than to suggest a state law which would be in conformity with section 5219. There have been several bills introduced in the various sessions of Congress looking towards an amendment to section 5219. Senator Steagall proposed such a bill in the last Congress, but Congress adjourned without taking any action. In the present session there has appeared the Shipstead Bill, S. 1115, and the Norbeck Bill, S. 1700, both of which have been read twice and referred to the Committee on Banking and Currency. Word has been received that Mr. Steagall has stated that he is being pressed to reintroduce his bill of last year and that he anticipates doing so. There apparently is some concentrated action among the tax commissioners of the various states who are communicating with Mr. Steagall, and who are also writing their senators and representatives asking that the Steagall bill be reintroduced.

These bills, in substance, give to the various states the right to tax national banks on the same basis as any tax applied against state banks. Obviously, this places banks, both state and national, in a separate class and can be taxed without regard to taxes assessed against other moneyed capital, corporations, etc. If these bills should pass it is a foregone conclusion that we would immediately lose the benefit of the 25 per cent reduction we now enjoy under the so-called

C. B. BROMBACH

"Gentlemen's Agreement," in fact, banks may be taxed at a higher rate than even the present law provides.

On May 18, 1935, the Minnesota state legislature memorialized Congress in a joint resolution petitioning that "the Congress of the United States amend the federal law so as to permit states to tax additional national banks upon a fair and equitable basis, and requested that the states join in a similar memorial."

Your committee members had several meetings with the State Tax Committee, of which Senator Orr became chairman following the death of Senator Sullivan. In view of the increase in tax rates all over the state, the reduction in bank income, because of low interest rates, and the added burden of federal deposit insurance, it was our position that we were entitled to a larger reduction of the tax levy. However, Senator Orr had already introduced a bill providing for the usual 25 per cent reduction. He was in the middle of a hard fight to pass the omnibus tax bill, which would have automatically given the banks substantial relief as to their real estate holdings, and was much concerned as to the effect a concession to our demands would have on the fate of the omnibus bill. He admitted that there appeared to be considerable merit in our arguments, but because of the existing situation asked that we renew the agreement on the old basis for another two years, and promise that, at least as far as he was concerned, favorable consideration would be given to a reduction two years hence. There was considerable discussion by our committee as to what our course should be under these circumstances, and it was finally deemed advisable to allow each bank to decide the matter as it might see fit.

The following table will provide an opportunity for comparing the tax in Minnesota with that of other states:

Connecticut, 10 mills (on capital stock only).

Delaware, 2 mills (on capital and surplus).

Florida, 2 mills.
Indiana, 2½ mills.
Iowa, 6 mills.
Kansas, 5 mills.
Kentucky, 13 mills.
Maine, 15 mills (the highest).
Nebraska, 8 mills.
New Jersey, 7½ mills.
Ohio, 2 mills (but also a 2 mill tax on deposits).
Pennsylvania, 4 mills.
Rhode Island, 4 mills.
Virginia, 10 mills.
West Virginia, 5½ mills.

For comparison of tax as related to net income, following is the rate in states where banks are taxed according to income:

Alabama, 5 per cent.
California, a maximum of 6 per cent.
District of Columbia, 6 per cent (of gross income).
Idaho, 1 to 4 per cent.
New York, 4½ per cent.
Oklahoma, 1 to 6 per cent.
Oregon, 8 per cent.
Utah, 3 per cent.
Vermont, 4 per cent (of dividends).
Washington, 4 mills on gross income.
Wisconsin, 2 to 6 per cent.

It is interesting to note that not a single state above quoted anywhere near approximates the tax which is being paid by banks in Minnesota, and each bank can figure out its own comparison after reducing the tax to a millage rate basis or to a net income basis. It has been successfully argued in many states that a fair method of tax assessment is that based on net income. No doubt, many banks in states using such a method have paid little or no taxes during certain years. In Minnesota, however, the banks are forced to pay a heavy tax regardless of earnings, and this heavy burden of taxation may even seriously affect the solvency of banks.

The assessed share tax on Minnesota banks in 1934 was	$1,569,275
After allowing a 25 per cent reduction under a compromise agreement	392,319
Taxes actually paid	$1,176,966
The assessed valuation of real estate owned by Minnesota banks (approximately)	$9,562,000
Taxes paid (approximately)	898,828

With the increased millage rate banks will be assessed a proportionately larger amount for 1935; taking into consideration the assessment of the Federal Deposit Insurance Corp., which might mean another $600,000 to the banks in Minnesota, it can readily be appreciated that the banks are, indeed, carrying a very heavy burden. The national banks, as members of the Federal Reserve system, are more essential governmental agencies than ever before, and in protecting them the law also protects state banks, inasmuch as no state would be inclined to tax a state bank at a higher rate than a national bank. Under the prevailing method of taxation in Minnesota there is, in reality, a penalty for the building up of capital and surplus, thus diminishing the security behind deposits, and a tendency to weaken the institution.

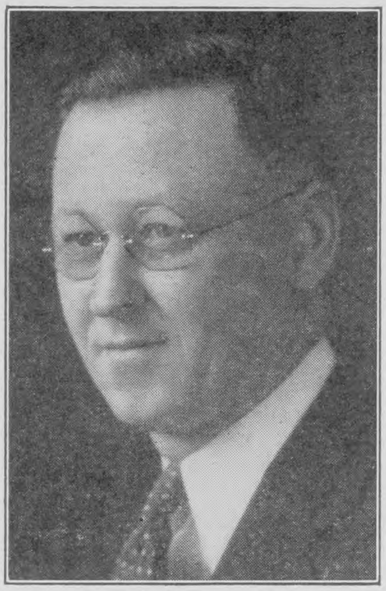
Bankers of the state are not asking for special privileges; they are anxious to bear their full share of just taxation, but it is obvious from the consideration of the foregoing table that we are paying for higher taxes under a voluntary "Gentlemen's Agreement" than most of the banks in the country are paying under their respective laws. In other words, we have partially spoiled the state taxing authorities in Minnesota by over-generosity in the past. If no substantial change is made in section 5219 during the next two years, it is the opinion of the committee that a decided and united stand for a reduction in the state taxes should be taken in 1937. It is probable that Senator Orr will still be chairman of the Tax Committee in the Senate at that time, and this should insure us at least a fair and sympathetic hearing.

Insurance

F. A. Buscher, National Bank of Commerce, Mankato (chairman); Guy E. Masters, Northwestern National Bank and Trust Co., Minneapolis; Wright Miller, First National Bank, Plainview; Colin McDonald, Annandale State Bank; H. O. Dilly, First National Bank, Northfield; Harry Wallin, Grand Avenue State Bank, St. Paul.

The Insurance Committee appointed by President D. J. Fouquette in July of 1934 continued the work initiated by the committee serving the previous year. With the untiring cooperation and assistance of our efficient secretary some very definite results were accomplished. One of the most alarming and serious operating charges assessed against the banks the past several years has been the increasing rates on bank burglary and holdup insurance as well as fidelity coverage. Realizing the seriousness of this situation as well as other reasons familiar to the banking fraternity it became necessary to interest a reliable company to write this specialized class of business at a rate that make it possible for the company undertaking the risk to handle the business at a profit and at the same time keeping the cost at a figure that would not be burdensome to the bank but would be equitable and fair.

After lengthy interviews and discussions the St. Paul Mercury Indemnity Co., a financially sound institution owned by the St. Paul Fire & Marine Insurance Co., agreed to write this business at a reduced rate which resulted in a very material saving to the banks in Minnesota. The figures obtained from the company disclose that they have written approximately 300 banks in the state, resulting in a saving to the banks of approximately $40,000 per annum. This protection at this reduced rate is not confined to the member banks alone but is recommended to non-member banks as



F. A. BUSCHER

well. This arrangement was suggested by our association notwithstanding the fact that the coverage could have been available to member banks only.

In order to show that we are willing to do our part to defeat the yegg in his daily holdup program it is recommended that we do our best to keep losses down to the minimum and thereby invite an additional reduction in rate and also show conclusively that the rates heretofore charged were exorbitant and unjustified. This undoubtedly can be shown in face of the fact that we have always been willing to cooperate and follow suggestions relative to the acquisition of special protective devices and taking special precautions in the safe-guarding of our cash and securities.

We wish to extend our thanks to Mr. Melvin H. Passolt, chief of the Bureau of Criminal Apprehension, for the state, and his limited force, for the cooperation he has given to our association during the last year. Our secretary praises, in highest terms, the work he has done the last 18 months.

We recommend to the membership the installation of special protective devices wherever possible. We also recommend that cash and securities in the vault be kept at a minimum and especially suggest that every precaution be taken to keep the counter cash at a minimum and the excess in the delayed time lock safes or equivalent equipment.

We again recommend that steps be taken by the bankers to permanently organize for securing the necessary legislation, providing for the establishment of state police with which the existing law enforcing organizations, including the vigilante and county unit systems and similar organizations can cooperate. We also recommend that the bulletins sent out by your secretary and by the insurance companies calling attention to various protective measures be studied and followed out wherever possible.

Legislation

J. E. Odegard, Santiago State Bank (chairman); L. H. Rice, Guaranty State Bank and Trust Co., St. Cloud; A. J. Veigel, University State Bank, Minneapolis; C. F. Dabelstein, Olmsted County Bank and Trust Co., Rochester; Henry A. Thoeny, First National Bank, Glencoe; F. E. King, First National Bank, Grand Rapids; O. W. Lundsten, Minnetonka State Bank, Excelsior; P. O. Holland, Northfield; Ray G. Kern, State Bank of Lake Elmo.

It is well that a legislative report be brief and with that in mind I will confine this report to a brief summary of the activities of your committee cooperating with the secretary of our association.

Immediately following the close of the 1935 session of the Minnesota legislature a detailed report of the laws passed by the legislature was sent to the membership of our association by our secretary and attention was called also to a number of important bills, considered drastic legislation, brought up that were defeated. In view of that report, which you undoubtedly have read, it is needless for me to go into detail in reviewing the same.

It has been the experience of our association over a long period of time that every session of the legislature brings new problems and that for political purposes, or otherwise, many bills are introduced which, if passed, would be very detrimental and destructive to the banking business and also unsatisfactory to the people generally who have occasion to do business with banks. Consequently, one of the most important functions of the legislative committee is to study the bills introduced and intelligently present to the legislators a fair and unbiased presentation of the effect of such legislation upon the state of Minnesota.

It has never been the policy of our organization to ask to be placed in a privileged class from a legislative standpoint and, consequently, we have never been considered by the members of the legislature as an organization lobbying for special legislation. This attitude on our part has always placed us in a favorable position and it is quite generally appreciated that the committees on banking of both the House and Senate welcome our cooperation in furnishing information that will better enable them to intelligently act upon any bill that is before them for consideration.

If you have not reviewed the legislative bulletin sent out from our secretary's office and are not familiar with the laws passed affecting banking, as set out in that report, I urge you to give a careful study and also consider the bills that were defeated that are also referred to in that report. I believe the results of our legislative activities will be found very satisfactory to you.

It was my privilege to attend a great number of the hearings of the banking committees of both the House and Senate and our secretary, Mr. Duncan, attended every meeting of both committees during the entire session, which made it possible for us at all times to keep in constant touch with developments and inform the membership of our association when co-operative action was necessary.

The matter of national legislation, which has been very disturbing during the present session of Congress, and in particular in reference to the banking act of 1935, has been handled entirely by our secretary, who has worked and cooperated with the secretaries and legislative committees of the Central States Conference comprising 14 states. He has attended several meetings of that organization and also appeared in Washington in support of amendments or changes in the banking act of 1935 as originally introduced, with particular reference to the effect that that proposed legislation would have upon our small rural independent banks.

The policy was adopted early this year that in order to accomplish anything in that regard the matter should be intelligently handled and the program outlined by the Central States Conference should be followed. We were fortunate also in connection with the legislative activities of the Central States Conference to have on the legislative committee of that Conference our president, Mr. Fouquette, who also was called into conference in Chicago to confer with other members of the committee on matters of vital concern to the smaller banks. Through our affiliation with the Conference and working with 13 other states, we have been placed in a much better position to accomplish the desired results than if we were, in our humble way, to attempt to "go it alone" so to speak.

The 1935 banking act, at the time of making this report, is still under consideration by the sub-committees of the banking and currency committee of the Senate and although it is difficult to forecast at this time as to what the final outcome of this bill will be, you may rest assured that everything has been done to properly present the wishes of our association to have the bill amended in such form as to give our banks the proper protection.

J. E. ODEGARD

We have felt that Titles I and III of the bill, as originally introduced, with slight modifications, should be passed before July 1, 1935, with changes, however, eliminating that provision which would require all state banks to become members of the Federal Reserve system in order to retain insurance privileges under the Federal Deposit Insurance Corp. We did not agree with the capital structure requirements as provided for in the original bill and we were also in favor of the assessment being placed at 1/16 of 1 per cent instead of ⅛ of 1 per cent.

It has been the opinion of our committee and the legislative committee of the Central States Conference that Title II should be eliminated from the bill and definite action postponed in order that additional time be given to further study and consideration of that provision.

In closing I wish to thank the membership for the excellent cooperation given this committee and the secretary's office. It has been a pleasure for me to serve as chairman and I hope that the results obtained have been satisfactory to you. As a former member of the legislature, I feel that possibly I can judge the activities of our association in legislative matters a little differently than one who has not had that experience and I am satisfied that the attention given by our association to legislative matters is worth more to each individual bank than the small contribution that they make in the form of dues.

Membership

Geo. A. Haven, Root River State Bank, Chatfield (chairman); J. T. Peterson, State Bank of LeSueur; C. M. Berg, First National Bank, McIntosh; N. H. Ley, Farmers State Bank, Watkins; M. F. Schaumburg, Security National of Park Rapids; W. P. Jones, First State Bank, Meriden; Al J. Hole, First National Bank, Cass Lake; A. G. Sirek, State Bank of New Prague; Ray A. Butts, First National Bank, Carlton; J. G. Olson, Citizens National Bank, Madelia; James F. Mullen, Citizens State Bank, Green Bank, Montevideo; F. J. Thul, First National Bank, St. Charles; R. W. Smyth, State Bank Isle.

No organization can efficiently function without a sufficient membership. In the history of all organizations of our type it is clearly shown that a certain number of people are always willing to participate in the benefits derived from cooperative effort without making any contribution to assure the perpetuation of a work that is very necessary for their own existence.

It is also of considerable interest to our committee and to the membership generally that there always exists in any organization a lack of understanding on the part of the membership at large of what really is necessary to bring about and maintain satisfactory conditions under which every business may continue to operate. This is not particularly true of our organization, as we find in looking back over the years of its existence the thinking banker very keenly appreciates what has been accomplished for all of the banks in Minnesota as well as its citizens.

It has been the opinion of the council of administration that the burden of solicitation of renewals of membership should not be left with the secretary of the organization, as that function does not properly belong to that office and, acting upon that suggestion and in entire sympathy with that reasoning, the president appointed a membership committee, of which it was my privilege to act as chairman. We have had exceptionally fine cooperation from the bankers generally and the membership has been quite materially increased.

G. A. HAVEN

It is my privilege to report to you that the bankers not members of the Minnesota Bankers Association at this time represent a small minority, with their dues aggregating about $2,300.

The financial statement of the treasurer of our organization is self-explanatory and clearly indicates appreciation on the part of the banking fraternity of Minnesota of the work that our association is doing in their behalf. Our committee very much appreciates the attitude displayed by the great majority of bankers in Minnesota towards the work that we undertook and it is my hope and belief that a renewed interest is being exemplified.

Public Relations

H. B. Humason, American National Bank, St. Paul (chairman); M. L. Erickson, Lake City Bank and Trust Co.; Harry P. Schoen, First National Bank, Hastings; Wm. F. Kunze, Marquette National Bank, Minneapolis; L. O. Kirby, First National Bank, Hibbing; W. B. Lloyd, Citizens State Bank, Fulda; T. G. O'Connor, O'Connor Bros. State Bank, Renville; Ralph W. Smyth, State Bank of Park Rapids; L. K. Houlton, First National Bank, Elk River; George E. Buscher, Farmers and Merchants State Bank, Breckenridge.

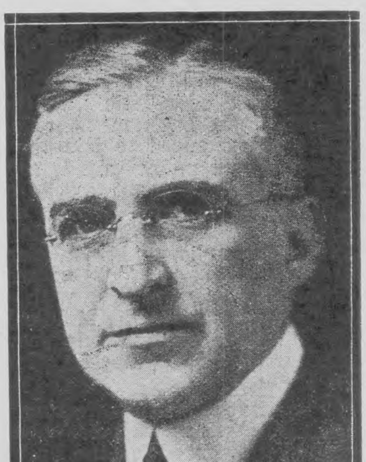
For the first time in the experience of our association, the president appointed a Public Relations Committee. This was prompted by the fact that it was felt that something should be done to acquaint the general public with the position taken by our bankers in their willingness to finance legitimate enterprise and their desire to make good loans to responsible borrowers for legitimate purposes.

In view of the propaganda being constantly circulated since the banking holiday by various individuals throughout the country, the public generally was given the opportunity daily of listening to speeches over the radio that were very disturbing and not presenting the facts relating to the attitude of bankers and their willingness to cooperate to bring back recovery. This sort of propaganda was very detrimental to business generally and the officers of our association felt that our banks should cooperate in a public relationship program that would acquaint the people of Minnesota with the true situation. We knew that our banks were in good condition, had ample funds to take care of legitimate needs and were willing to do their part to take care of applications for loans where sound banking and prudent practices would permit.

President Fouquette had spent a great deal of time in working up a program consisting of newspaper and radio advertising that was presented to our committee for consideration. It was felt that although the plan was somewhat elaborate that it had a sufficient amount of merit to warrant an attempt being made to interest the banks in Minnesota in such program. It is rather interesting to note that this plan was given considerable publicity throughout the United States and many associations were anxiously awaiting the inauguration of it in Minnesota.

The plan was presented at the group meetings by President Fouquette and the work of soliciting individual members was left to each county organization. In order to put this program into operation it was necessary to procure the consent of at least 350 banks. The various county organizations entered into this work enthusiastically, but a sufficient number of banks did not respond within the time limit and consequently the plan was dropped temporarily. It is rather interesting to note, however, that a plan very much similar to this has been recently suggested by an Eastern association to the American Bankers Association and what action will be taken by that organization is yet unknown. The plan offered by our association would have provided for newspaper advertising in every newspaper in Minnesota and a 30-minute weekly broadcast over a period of 36 weeks.

We regret that it was necesary to drop this program for the present and we feel that the interest should be continued with the hope that possibly a modified program from the plan submitted may be adopted later. There is the feeling in all bankers' organizations that something should be done to combat the assaults and uncalled for statements made against the American banking system, and the following, taken from the Public Relations Bulletin of the Ohio Bankers Association, hits the nail on the head:



H. B. HUMASON

They're Still Shooting

"Renewed and loud attacks on the American system of banking are being heard. These assaults, while at present confined to banking, must eventually lead to complete political domination of all business—yes, and even the private lives of individuals. Thus it has worked out in every other nation which has succumbed to the wild promises and fancy theories of the leaders of noisy minorities.

"The average person who heeds such movements and subscribes to them does not realize their significance. He simply hears a persuasive voice promising something which sounds a little better than his present situation. Others, while not attracted by the idea, remain indifferent and say, 'It is only another argument about banking.'

"The present movement is more than 'just another argument about banking.' It, if successful, carries with it the destruction of the entire private business system under which America achieved the highest standard of living in history.

Business Men Must Act

"It is plainly up to the bankers of every community in Ohio to explain the threat of this to every one and particularly to the business and professional men. Should the first steps be successful and the private banking system be destroyed, it will then be too late to save other industries and enterprises from the blighting hand of politics guided by the frenzied brains of demagogues.

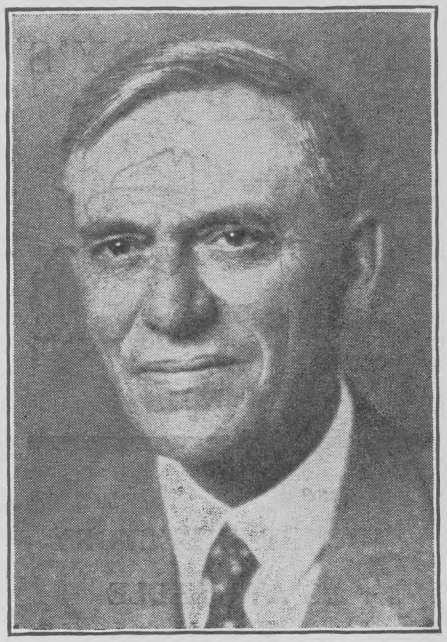
"The calling of names and the coining of picturesque abuse will not be sufficient to answer these movements. The presentation of facts still counts with the majority of Americans. But your customer and your neighbor must have the facts. You and your fellow business men, large and small, must work at this counterattack. No agency can be so effective as local citizens who are highly respected. They will be heeded when they expose the implications of some of the movements now receiving wide publicity. What, for instance, would happen with the abolition of so-called 'check currency?' Where would any modern nation which has such rapid communications end with this blow to our credit system?"

Securities and Safe Deposit Boxes

A. J. Veigel, University State Bank, Minneapolis (chairman); M. F. Ernst, Midway National Bank, St. Paul; J. S. Effertz, State Bank of Belle Plaine; J. J. Sterner, Citizens State Bank, Winsted; H. J. Westlund, First National Bank, Parkers Prairie.

Your committee on Securities and Safe Deposit Boxes begs leave to make the following report:

The previous arrangement was continued with the School of Business Administration of the University of Minnesota. They have continued to publish the "Financial and Investment Review," and



A. J. VEIGEL

to analyze bonds for banks when requested to do so.

This Review is edited by professors who also handle the large endowment investments of the university, and who, therefore, have practical knowledge and experience in the value of bonds.

Your committee knows that this Review is a very valuable publication, and if studied and kept on file by bankers, is of great help as a yardstick to determine which bonds to buy and sell. The university is not interested in the sale of any particular bonds, and the information given is, therefore, disinterested.

At a recent meeting of this committee with the university officials, they agree to continue this work if desired by bankers. They will also continue to analyze bonds for banks on request.

We, therefore, urge all bankers to subscribe for the Review, and make full use of the services offered.

The recent decision of the Minnesota supreme court that safe deposit boxes cannot be garnished, is of great importance, and finally settled that question.

Your secretary has recently mailed to all member banks a printed copy of the address of L. R. Barker, the attorney who handled this case for the First National Bank & Trust Co. of Minneapolis. We urge all bankers to read this address carefully, as it contains many suggestions on how the safe deposit box business should be handled to avoid liability.

An effort is now being made in Minneapolis to have the contents of all safe deposit boxes insured. If the first $1,000 on each box can be insured at a nominal rate, say about 15 cents a box, the bank might absorb that expense. Then each renter would be requested to pay an additional premium for such additional insurance as he desired. The contract made with the renter would state clearly that the bank would not be liable if the contents of boxes were not fully insured by the renter.

It remains to be determined whether or not an insurance rate can be obtained which would be low enough to make the plan feasible.

We give below 20 suggestions in connection with the handling of safe deposit boxes.

1. In renting safe deposit boxes, use duplicate receipts and obtain signature of renter on receipts, agreeing to all conditions printed on back. We contemplate in the near future submitting a form for your consideration.
2. Insist on a certified copy of resolution authorizing rental and designation of those to have access of boxes of corporations.
3. Require appointments of deputies or agents to be made in writing.
4. Do not allow access to a renter's box by anyone not designated in the contract.
5. Do not open a renter's box in his absence to deposit or remove securities on request.
6. Always keep a record of renters' visits to boxes and require signed entry cards.
7. Always compare signature at each visit with one on file and verify box number.
8. Require a written release when a safe deposit box is vacated.
9. Give the renter both keys to his box.
10. Do not allow the renter to use the guard key and open his box alone.
11. Do not permit a renter to leave a key to his box with an officer or employee of your bank.
12. Do not permit contents of a deceased renter's box to be removed or allow members of his family access to it without first having the contents inventoried by a representative of the county treasurer.
13. Always have a representative of your bank present when a deceased renter's box is inventoried.
14. In regard to past due box rents, the opening of boxes and the disposal of contents, refer to Session Laws of 1933, Section No. 14.
15. Do not advertise your vault as absolutely safe.
16. Do not refer to your guard key as a master or pass key.
17. Study safe deposit practices and problems through membership in safe deposit associations.
18. Have one member of your force responsible for keys to unrented boxes.
19. Most banks have entirely discontinued the practice of taking securities and other valuables for safe-keeping, and we recommend that all banks discontinue this practice, except in rare cases where the package is too bulky to put in a deposit box.
20. All banks should have fixed rules and should always follow them, so that if sued, all officers and employees could swear that these rules were always observed.

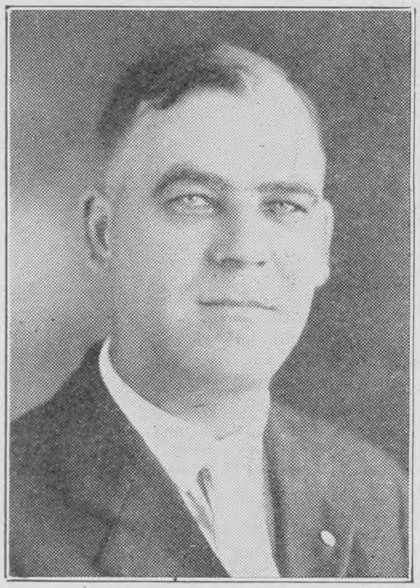
Unit or Independent Banking

M. L. Erickson, Lake City Bank and Trust Co. (chairman); H. R. Kurth, Citizens Bank, Hutchinson; Theodore Aune, Glenwood State Bank; W. C. Krog, Farmers and Merchants State Bank, Stillwater; J. K. Martin, First National Bank, Little Falls; W. W. Churchill, Rochester Loan and Trust Co.; Frank P. Powers, Kanabec State Bank, Mora; A. J. Kane, First National Bank, Brewster; Elmer B. Hanson, First State Bank, Fertile.

The Unit or Independent Banking Committee has held no formal meetings since its appointment, and therefore has no detailed report of activity to make to the convention.

The Minnesota Bankers Association is on record as favoring the principal of unit banking as opposed to branch or group banking. A large majority of its members are banks to whom the perpetuation of the present unit banking system is vital, and to whom any extension of group banking, or the legalization of branch banking in Minnesota, appears as destructive to their business. The association and its officers, to correctly reflect majority opinion, must necessarily favor the unit banking system, which is so fundamental to the life of most of the members, and the Unit Bank Committee is intended to provide the machinery for giving expression to this predominant association opinion.

There was no serious attempt made in the last Minnesota legislature to legalize branch banking in Minnesota in any form. Officers of the two large bank holding companies in Minnesota have stated publicly that the present policy of these companies is against further extension of their so-called financial empires, nor are they at this time making any effort looking toward branch banking in Minnesota.



M. L. ERICKSON

The banking act of 1935, now before the national Congress, contains no provisions adversely affecting independent banks as such. Under Title I, as the bill now stands, state bank members of the FDIC are not required to join the Federal Reserve system by July 1, 1936, as required under the present law, to retain their FDIC membership. This is an advance from the standpoint of the independent state banks, and with many of them is of vital importance. Our association, through its secretary, with other bankers' associations in the Middle West, used its influence to have this provision in the bill, and will continue its efforts to keep it there.

With no developments affecting independent banks, which were not otherwise being adequately cared for, the Unit Bank Committee has not deemed it necessary to spend the association's money holding formal meetings. It may be, however, that in the future events will transpire which will make important a committee representing unit banks, and it is recommended that such a committee be again appointed.

No Need to Tinker Further With Federal Reserve System

Commercial West Special Washington Correspondence

Important news is breaking here almost daily. It is even rumored that the "must" label may be removed from the proposed bank act, which has developed so much oppositon in banking circles. Many wise heads believe that what the banks and Federal Reserve now need most of all is to be let alone and do their own amending, if any is needed. Some "wholesome neglect," not only for banking but most major industries, would be most helpful in restoring confidence and encouraging business expansion. Congress would do well to listen to the sound advice of such experienced legislators on banking as Senator Glass. Favorable comment is heard here in Washington of the strong fight made in the Northwest against radical changes in our banking laws at this time.

Bankers and other business executives realize that the Federal Reserve system has given satisfactory results and has accomplished the principal aims of the act, viz.: to mobolize gold reserves and provide an elastic currency, which automatically expands and contracts, according to the demands of business. The authors of the Reserve bank law tried to avoid either banker control or political domination, but to provide a mechanism that would serve the needs of business. They can see no reason now for changing this feature.

Much loose talk is indulged in about the fight between bankers and government officials, as to who shall control the supply of Federal Reserve notes. Neither one of these has or should have any such control. The demands of business are the controling power in the expansion and contraction of Reserve notes, which now constitute the bulk of our currency. This has been working perfectly and business interests are not asking for any change. The only demand for political control of the volume of currency comes from the fiat money advocates. Apparently they have never read the imprint on all our forms of currency. Every one is a promise to pay dollars, so a paper bill is not actually a dollar, but only a promise to pay such. The deluded fiatist seems to think the government could imprint currency saying: this is $5 or $10 and it would pass current as such.

When some of the noisy fanatics, who do most of the talking about money, say "the constitution gives Congress the power to issue money," they are dead wrong. What the constitution says is "that Congress shall have the sole power to coin money." That has no reference to currency, but only coinage.

The government's authority to issue any form of currency comes under the clause of issuing some form of indebtedness either interest bearing bonds, or non-interest bearing Treasury notes.

Under the recent silver purchase act the government has already issued some 800,000,000 of silver certificates, about the same amount as national bank notes outstanding. Such notes are to be retired, as bond-secured currency is scheduled for the discard. The great bulk of our $5,000,000,000 of currency is made up of Federal Reserve notes. This currency is just as elastic as the bank note system of Canada or Great Britain. It is doing exactly what it was designed to do and no good reason has yet been offered for making changes in its method of operation.

Just how responsive this note issue is to demand was shown during the bank panic of March, 1933. Within a few weeks the volume of Reserve notes increased around $1,000,000,000. This was not from expanding business, but on account of currency hoarding by a scared public. But it was a good demonstration of the responsive feature of the Reserve note system. To care for this sudden demand the currency division of the Bureau of Printing and Engraving was run at high pressure, with three shifts of eight hours each, for many days and nights.

There is no possibility of a scarcity of currency, except under some widespread panic, which would be only temporary. So long as member banks have paper eligible for discount at the Reserve banks they can have all the currency needed; even if the volume of business was expanded many fold above present figures. Such fact disposes of the bogus argument that a shortage of currency was the reason we enacted the recent silver purchase law. It was a shortage of monetary and business common sense and an over-supply of political bloc pressure, that launched us on this second silver folly. Will it require another Grover Cleveland to rescue us from this silver inflation?

FARM GAIN IN MINNESOTA

Preliminary tabulations of the 1935 census of agriculture returns for Minnesota, just released by Director William L. Austin, Bureau of the Census, Department of Commerce, disclose 203,946 farms compared with 185,255 farms in 1930, an increase of 18,823 or 10 per cent. The number of farms reported for 1935 is subject to revision downward after schedules received from the field have been edited, as the editors will eliminate returns from places not included in the census definition of "farm."

HARRIS, UPHAM & Co.

U. S. Families Spend More on Homes

The average American city family spends exactly one-third of its income for food as against 46 per cent of the income of the German middle-class urban family and 40 per cent of its income paid by the middle-class Japanese family of comparable circumstances. The American family, however, uses a much larger portion of its income on its living quarters than do either of the other two nationalities, according to a comparative analysis of family spending habits just completed by the Northwestern National Life Insurance Co. of Minneapolis.

Records used in the study included industrial workers and federal employes located in large population centers. There were an average of two children to each household. Over a three-year period the families enjoyed average annual incomes of $1,720, or close to the estimated national mean for 1934. The figures showed $47.87 per month spent for food, or 33.4 per cent; $39.84, or 28 per cent, paid out for shelter; and $17.91, or exactly one-eighth of the monthly income, expended for clothing.

New Unemployment Ins. Amendments Explained

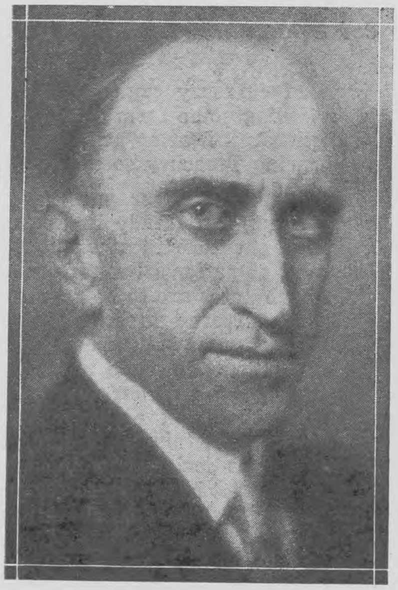
At the recent annual meeting in Milwaukee of the Wisconsin Manufacturers Association proposed amendments now before the legislature to the Wisconsin unemployment insurance law were outlined by Vice President H. L. Story of the Allis-Chalmers Co. and Paul Rauschenbush, administrator of the state act.

Proposed changes in the law would fix eight and one-half and 13 weeks as the terms of benefits, now straight 10 weeks. No benefits may exceed $130 a year. Provision is made to delay payments until January 1, 1936, possibly to July 1, 1936, if a federal unemployment insurance law is passed.

Contributions by employers will remain at the original 2 per cent of payrolls until January 1, 1938, but when the reserve reaches 7½ per cent of the insured payroll the rate is automatically reduced to 1 per cent. Minimum exemption of payment to employes has been reduced from $300 to $250 a month. In other words, an employe earning $250 a month under the amendment would not be entitled to insurance.

Officers re-elected are George S. Whyte, Kenosha, president; D. C. Everest, Rohschild, vice president; S. C. Scanlan, Madison, treasurer; George F. Kull, Milwaukee, secretary-manager.

CHOSEN FOR RFC COMMITTEE



Two Minneapolis investment and mortgage bankers, Robert J. Stallman, right, and Frank J. Mulcahy, left, have been appointed as additional members of the advisory committee of the Minneapolis RFC agency and will assume their posts at once. Mr. Mulcahy is president of the Northwestern Mortgage Co. and secretary of the Northwestern National Bank & Trust Co. Mr. Stallman is an officer and director of the Wells-Dickey Co., associated in the management of its municipal bond department. He has served as manager of the Montana and Seattle offices of Wells-Dickey Co. Appointment of the Minneapolis men to the committee is in line with expansion of the RFC program to cover the fields of mortgage and municipal financing, along with its original bank and industrial loans.

Reserve Board Optimistic

Larger national income and continued indications of improving business, especially the gain in capital issues, are reported by the Federal Reserve Board in its June bulletin. National income has been larger this spring than in the same period of any of the three preceding years. Profits of large industrial concerns in the first quarter of 1935 were the highest for the period since 1930, the Board states.

Industrial production, factory employment and payrolls all declined slightly in May, the Board reports. Activity in residential construction continued above the level of a year ago.

Reserve Board's condition statement of weekly reporting member banks on June 19 shows increases for the week of $120,000,000 in loans and investments and $36,000,000 in time deposits, decrease of $63,000,000 in reserve balances with Reserve Banks. Loans on securities to brokers and dealers in New York $838,000,000, off $5,000,000. Outside New York $167,000,000, off $3,000,000.

3 Bank Hearings

The Minnesota Commerce Commission has three bank hearings on the fire for next month—for new banks at Danube and Greenbush and a move from Evans to Redwood Falls. They are as follows:

State Bank of Danube, $10,000 capital and $2,000 surplus. Incorporators: Frank Kircher, George Kircher and Henry Schroer. Hearing July 2.

Greenbush State Bank, $10,000 capital. Incorporators: E. A. Hildahl, Andrew W. Clay, M. O. Folland, Geo. P. Philstrom, R. J. Stilde and Carl Hjelle. Hearing July 2.

Central State Bank of Redwood Falls, now State Bank of Evans. Application proposes to increase present $10,000 capital to $25,000 and $5,000 surplus. Incorporators: H. F. Smith, W. G. McPhee, Geo. A. Carnes and Jas. A. Peterson. Hearing July 16.

NEW CREDIT UNION

The new Motor Bus Credit Union of Minneapolis opened for business June 18, having been approved by the State Banking Department June 5.

Fire Insurance Men Meet at Alexandria

That was a great gathering of fire insurance men up at Alexandria Thursday and Friday of last week, when the Minnesota Underwriters Association, the Minnesota State Fire Prevention Association and the Minnesota Pond, Honorable Order of the Blue Goose, International, held their annual meetings and joint outing. A total of 85 were registered which was the best attendance in several years, that last year having been 60.

George F. Duerr of Providence Washington Fire, Minneapolis, was elected president of the Minnesota Underwriters Association. Carl H. Ludwig, New York Underwriters, St. Paul, was elected vice president, and Robert E. Cropsey, National of Hartford, Minneapolis, was elected secretary-treasurer. Three new members of the executive committee were elected. They are W. P. Canterbury of the Caledonian, N. Dekker of Continental Fire and Dean Perry. Hold-over members are S. W. DeWaard of the Hartford and A. R. Lofgren of the Auto of Hartford.

At the annual "splash" of the Minnesota Pond of the Blue Goose George F. Duerr was also picked for first honors, being elected most loyal gander. George D. Van Wagenen, state agent National Union Fire, Minneapolis, was elected supervisor of the flock; W. W. Belford, special agent Rhode Island Fire, custodian of the goslings; John E. Jackson, state agent Home Fire, guardian of the Pond; Paul A. Enck of the Enck & Linnell Agency, Minneapolis, keeper of the golden goose egg; David I. Bergwin, Springfield Fire and Marine, wielder of the goose quill.

Austin Fields of the Fire Underwriters Inspection Bureau, Minneapolis, and Louis L. Law, state agent, London Assurance, Minneapolis, were elected delegates to the grand nest (national convention) to be held at Atlantic City next August. Mr. Fields was retiring most loyal gander of the Minnesota Pond.

Despite the fact the weather was a bit chilly everybody reported a good time and the sports events were a big success. These consisted of archery, G. W. Blomgren, chairman; fishing, Nick Dekker, chairman; clock golf, O. R. Van De Wall, chairman; straight golf, Paul Enck, chairman; ping pong, E. J. Lorenzen, chairman; rifle shoot, C. P. Philippi, chairman; trap shoot, C. R. Lill, chairman. G. F. Duerr was chairman of the committee on prizes and M. G. Irwin of equipment.

The annual Blue Goose banquet was held Thursday evening and the fish fry at noon Friday. This was to have been an outdoor affair, but was held inside due to inclement weather. That fact, however, did not interfere with enjoyment of the occasion.

Nation's Credit Men Adopt Insurance Program

An insurance group session held June 18 in conjunction with the fortieth annual meeting of the National Association of Credit Men at Pittsburgh adopted the following program for the ensuing year:

1. The furtherance of sound insurance among credit executives and credit risks.

2. The alleviation of credit losses due to inadequate and improper insurance in all branches.

3. Dissemination of educational insurance data, particularly on the less familiar forms of protection.

4. The establishment of a credit men's bureau of information on insurance problems.

This meeting of insurance company representatives (comprising a total of 87 fire, life, casualty and surety companies) was promted as a result of a survey of insurance buying practices among credit men in which it was disclosed that only 30 per cent suggested or insisted that their customers carry fire insurance; only 10 per cent windstorm insurance; and only 4 per cent to 5 per cent other allied forms of protection.

It was felt that not only is it the duty of the credit man to insist on more complete protection to safeguard his credit extension, but also that it was the duty of the insurance companies to assist him in this respect.

The insurance group went on record as unanimously in favor of the universal use by credit men of the "insurance statement" form so essential to the proper analysis of a credit risk.

In behalf of his work as sponsor of this group, D. C. Campbell of the Chicago office of the Fidelity-Phoenix Fire Insurance Co., was re-elected chairman for the ensuing year. Mr. Campbell will strive to obtain outstanding insurance speakers on the program of the next annual meeting of the Credit Men's National Association, as well as at various meetings of local credit associations throughout the year.

WISCONSIN'S NEW OFFICERS

Wisconsin Bankers Association in annual convention this week at Green Lake, elected the following officers:

President—J. J. Brooks, assistant vice president First Wisconsin National, Milwaukee.

Vice Pres.—Robert L. Banks, assistant cashier First National, Superior.

Treasurer—T. M. Strong, president Strong's Bank, Dodgeville.

Members Executive Council—I. N. Knutson, vice president and cashier Coon Valley State, Coon Valley; Clarence W. Mau, president First State, Prairie Farm; William J. Tesch, vice president and cashier, Lincoln County Bank, Merrill.

WEST TRUST CONFERENCE

The thirteenth regional trust conference of the Pacific Coast and Rocky Mountain States will be held at Los Angeles, Calif., on October 31 and November 1. A. L. Lathrop, president California Bankers Association, is general chairman of the conference committee. The conference region embraces the states of: Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

• The Bank Lobby •

"Ye Do It Unto Me"

He didn't say anything, had just watched her for a minute, then one of the senior executives of the Northwestern National Bank & Trust Co., where the peony show was held in Minneapolis this week, walked over to a stand, took a big handful of peonies, great beautiful ones of all colors, laid them in her lap and walked away. But if he could have seen the smile that lighted her face as the child eased the twisted, shrunken leg in her wheel chair and clasped the flowers to her breast he would have been fully repaid. It was wonderful to have had her mother wheel her all the way to the show so she could see the beautiful flowers she loved, but to have a great bunch of them for her very own—that was almost too good to believe.

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Goes to Denison

Henry C. Linduski who has been chief clerk at the Live Stock National Bank, Sioux City, has accepted the position of cashier of the First National at Denison, Ia., and will assume his new office July 1. Announcement of the change is made by Vice President Carl Fredericksen of the Sioux City bank. Mr. Linduski, who is 36 years old, has been with the Live Stock National for 16 years, having started as messenger.

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Good Natured About It

Like most North Dakotans President Frank T. Merrill of the Union National, Minot, was mighty good-natured about it when the picture of another Frank Merrill was run inadvertantly in last week's Commercial West for that of the newly elected vice president of the North Dakota Bankers Association. Only thing Mr. Merrill said outside of "no harm had been done" was that he is going to "charge Commercial West for the postage he has had to use in replying to letters from inquiring friends." Commercial West hopes to be able to present the "right" picture of Mr. Merrill as soon as he can be induced to have a new photo taken.

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Twenty-five Years Old

On June 20, 1935, the Reclamation State Bank, Newell, S. D., had been in operation for 25 years, having opened for business June 20, 1910. Total deposits now amount to $478,000. D. J. Hull, president, and W. B. Penfold, vice president, have served as directors continuously since the bank was organized.

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Taking A. I. B. Course

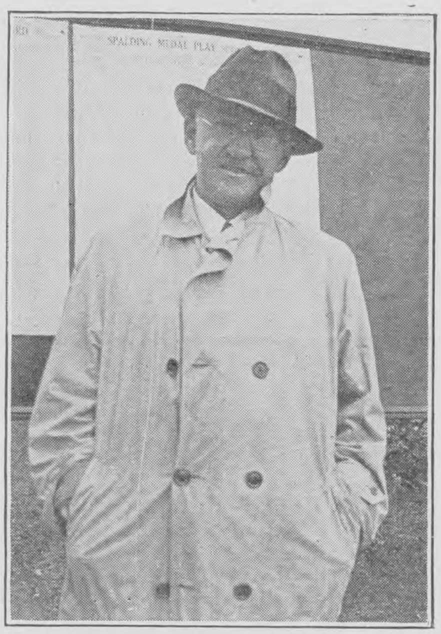
Bankers of the Northwest who have registered for the courses of the Graduate School of Banking at Rutgers University, Brunswick, N. J., operated under joint auspices of the A. I. B. and the University, are:

Minnesota: Vincent McLane, assistant cashier First National Bank & Trust Co., Minneapolis.

North Dakota: Raymond A. H. Brandt, vice president First National, Minot.

Iowa: William L. Temple, cashier Ute State, Ute.

Wisconsin: W. G. Doherty, cashier Wisconsin State, Delavan; S. M. Driessen, department head, Marshall & Ilsley Bank; A. R. Lemm, branch manager First Wisconsin National, both of Milwaukee, and E. M. Van Lone, Beloit Savings Bank.



W. R. MURRAY, chairman of the Golf Committee, photographed at his post by the scoreboard at Interlachen.

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Entertains FDIC Men

Iowa's secretary, Frank Warner, entertained federal and state banking officials at a luncheon in Des Moines Friday of last week. The occasion grew out of an official conference with Secretary Warner, other officials of the Iowa Bankers Association and executives of the state banking department with FDIC examiners. These were Assistant Chief Examiner D. C. Tafft of Washington, D. C.; Wesley C. McDowell, Eighth district superintendent of examiners, and Frank Lettow, Iowa examiner. Others attending the luncheon were R. L. Bruce, Iowa deputy superintendent of banking; Grover Krouth, head of the receivership department. Iowa banking department; B. F. Kauffman, member State Banking Board; Lehan T. Ryan, assistant attorney general, and D. W. Bates, Iowa superintendent of banking.

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Had Rabbit's Foot

H. T. Scriver of the First National, Cannon Falls, must have picked up a rabbit's foot somewhere on Interlachen during the golf tournament feature of the annual convention of the Minnesota Bankers Association, held at the Nicollet in Minneapolis. At least he sure was lucky. He and G. H. Dinkel, A. C. of the Peoples National at Long Prairie, tied for the blind bogey prize. They left it to President-elect Wm. N. Johnson of M. B. A. to flip a coin and Mr. Scriver won.

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Everybody Happy

Pres. E. W. Kane of the Worthington National was one of the early arrivals last week for the M. B. A. convention and spent some time visiting around in the Twin Cities. "Everything looks great down our way," Mr. Kane told Commercial West. "Crops good, pastures fine, livestock feeders making money, everybody happy."

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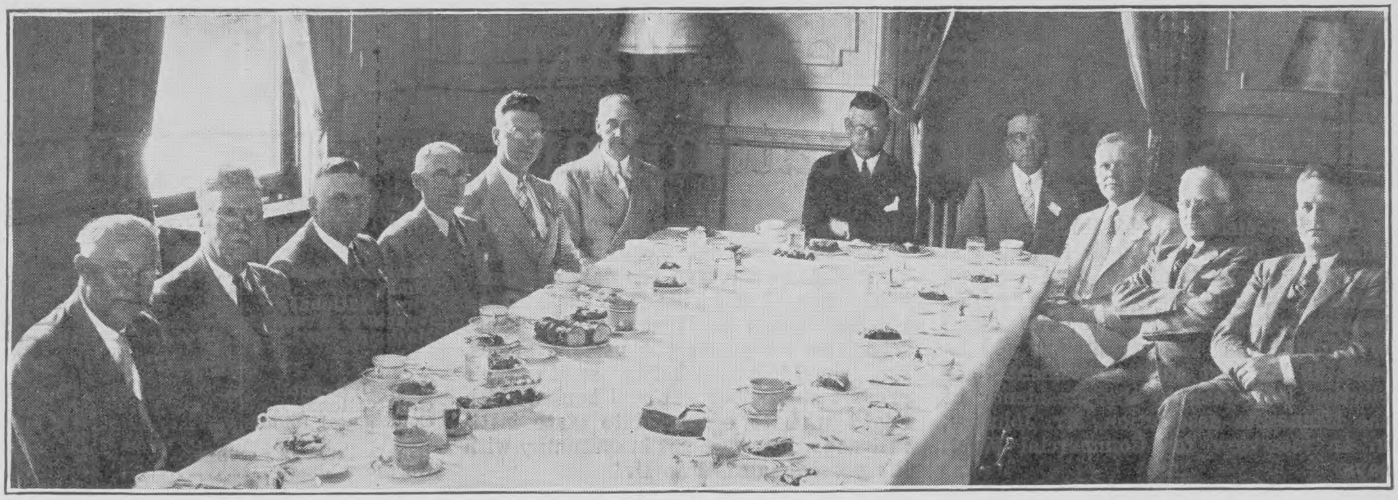
California Bound

D. W. Bates, Iowa's superintendent of banking, accompanied by Mrs. Bates and their son, Robert, left a few days ago for an auto trip to California, partly business, partly pleasure. They will be gone a month or six weeks.



The Council of Administration at luncheon meeting Thursday after close of Minnesota's forty-sixth annual convention. Left to right: A. B. Larson (retiring member), C. M. Berg, H. R. Kurth, Treasurer W. C. Krog, Frank P. Powers, Vice President Gandrud, President Johnson, Secretary Duncan, Past President Fouquette, H. M. Burnham and N. H. Tallakson. Absent when picture was taken: W. F. McLean, C. E. Johnson, B. V. Moore and F. J. Thul.

Peony Show at Bank

The lobby of the Northwestern National Bank & Trust Co., was one great mass of beauty this week as hundreds of beautiful peonies, irises, roses and other flowers of the season were on display at the annual exhibit of the Minnesota Peony, Iris and Garden Flower Societies affiliated with the Minnesota Horticultural Society. Hundreds visited the bank and admired the beautiful display, said to have exceeded those of past years because of the favorable growing season.

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Fish Are Biting

"The best I can say about things up our way," said Pres. Nels M. Evenson, First National of Osakis, at the Minnesota convention, "is that the fish are biting good and running large. Anything I might say about crops and business conditions would be just piling so much good things on top of what everybody else says. But conditions sure are fine and we are looking for good fall business all along the line."

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New Director

Jacob Feinberg, president Jacob Feinberg & Co., wholesale meats, Minneapolis, has been elected a director of the Stock Yards National, South St. Paul, to fill the vacancy caused by the death of A. Slimmer. Mr. Feinberg has been identified with the livestock and meat business in the Northwest for more than 35 years.

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New N. D. Bank

President Frank R. Scott of the Merchants National Bank & Trust Co., Fargo, has applied for a charter for a bank in West Fargo, to be known as the Live Stock Bank of West Fargo. Associated with Mr. Scott in the application were Messrs. R. F. Gunkelman and R. D. Warner, directors of the Merchants National. The new bank will be located in the Exchange building to be erected in connection with the establishment now under way of new stock yards in West Fargo by the St. Paul Union Stock Yards Co. of South St. Paul. The bank will not be opened until the new stock yards are ready for operation.

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The Flying Dutchman

State Bank Examiner Adam A. Lefor of North Dakota doesn't waste any time when he makes up his mind to go places. He decided to take in the smoker of the M. B. A. convention. That was at 4 o'clock in the afternoon at Bismarck. So he hopped a Northwest Airlines plane, got into Minneapolis at 7:50, had dinner, attended the smoker, took another Airlines ship back at 11:30 P. M., landed at Bismarck at 2:15 A. M., had five hours good sleep—and was back on the job the next morning at the state capitol. He actually lost 10 minutes' office time traveling 892 miles.

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Conventions This Week

Bankers of Wisconsin and Michigan held their conventions this week, Wisconsin at Green Lake and Michigan at Lansing, both on the same days, Monday, Tuesday and Wednesday. More about these conventions next week. Suffice to say reports showed large attendance, plenty of optimism and everybody having a good time, hearing good speakers and getting lots of inspiration for the rest of the year.

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Entertain Banker Agents

Bankers who also handle insurance, and there are a great many of them, were entertained at the convention last week of the Minnesota Bankers Association in Minneapolis by Oscar J. Eastman of Northwestern Fire & Marine, Minneapolis, and H. O. Munson, C. H. Christensen and C. F. Hjermstad, field men. Interesting conferences were held with various bankers on the insurance outlook in their communities and many fine friendships resulted.

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S. D. 1936 Dates

The executive council of the South Dakota Bankers Association has selected May 20-21 as the dates for the 1936 state convention and Aberdeen as the place.

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A. I. B. Chairmen

Henry Verdelin, First Service Corp., Minneapolis, new vice president A. I. B., and T. D. Maier, First National Bank, St. Paul, have been named chairmen of standing committees by President-elect Maynard W. E. Park of the A. I. B. Mr. Maier is chairman of the debate committee and Mr. Verdelin of the program committee.

(Continued on page 65)

M. B. A. President Makes First Public Statement

President-elect Wm. N. Johnson of the Minnesota Bankers Association, who is also vice president of the Northwestern National Bank & Trust Co., Minneapolis, has a word of confidence for the future of banking and business in the Northwest. In his first public statement since election last week to the presidency of the Minnesota association, Mr. Johnson, in an interview for Commercial West, says:

"I am fully appreciative of the honor conferred upon me and the confidence imposed in me by my election to the presidency of the Minnesota Bankers Association. I shall endeavor during the coming year to carry out as fully as possible the duties and obligations of the office, with the thought always in mind of transacting my official affairs in the best interest of all concerned.

"Legislation and low earnings I should say constitute the chief obstacles before the banking business today. Otherwise the outlook is encouraging. Crop conditions are excellent with indications farmers will obtain a fair price this fall for their products. This situation, provided we harvest good crops now promissed, should result in considerable improvement this fall in business conditions throughout the Northwest. In fact it should start this area well on its way to substantial business recovery, in which, of course, the banker, as always, will be a central figure.

"Concerning banking legislation now before Congress, known as the banking bill of 1935, it seems probable this measure may become law before or by the time this issue of Commercial West reaches its readers, because I see by press dispatches from Washington yesterday (Monday) that it is expected the bill will be taken up and passed in three days.

"Meanwhile I am hopeful Title II will either be omitted or held over for further study and thought or else amended to the extent that political control from Washington of the Federal Reserve Board, now proposed, is lessened materially.

"From advices I have received from reliable sources I am hopeful the bill will be amended so that state banks will not be forced to join the Federal Reserve system in order to qualify for deposit insurance. It would seem to me important that state banks, as many as wish, should be privileged to remain outside the Reserve system. They would serve as an admirable check to intensified Washington control of the nation's banking system, should Title II of the banking bill be enacted as it now exists. There would be refuge in the various states, too, should state banks retain their present status, for national banks which might wish to convert into state institutions if they were not in sympathy with the provisions of Title II."

Bank Stocks

June 26, 1935

	Bid	Asked
MINNEAPOLIS		
First Bank Stock	9½	9⅝
N. W. Banco	4¾	5
NEW YORK		
Bankers Trust	59⅝	60
Chase	25¼	25½
First National	1510	1520
Guaranty Trust Co.	259	261
National City	23⅝	24⅛
CHICAGO		
Central Republic	4½	5¼
City National	80	....
Continental Illinois	44¾	45¼
First National	108	110
Harris Trust & Savings	220	222
Northern Trust	445	455

Commodity Prices

	June 26	June 19
Butter (lb.)	$0.24¼	$0.25
Eggs (doz.)	.25½	.24¾

(Butter and egg prices are New York wholesale market on "firsts.")

	June 26	June 19
Hogs (cwt.)	9.00	9.30
Cattle (cwt.)	9.75	10.00
Lambs (cwt.)	8.25	7.75

(Livestock prices are South St. Paul quotations for top sales.)

	June 26	June 19
Potatoes (cwt.)	1.00	1.00
Potatoes (cwt.)	.85	.85

(Potato prices are those paid growers in carlots. Higher price for Minneapolis district, lower for shipments from northern part of state.)

Tax Free Bonds Threatened

Considerable speculation is rife as to just what will happen to the municipal bond market in case Congress heeds the recommendation of President Roosevelt and takes the tax-exempt privilege away from state, county and municipal bonds.

For one thing bond dealers are practically unanimous in feeling much of the desirability would be taken from the municipal from the viewpoint of the investor. The fact remains, however, that a municipal bond has back of it the great fundamental security of all ages—land and real property, plus pride of commonwealth in its credit. Here, then, is one factor of value in the eyes of the investor that cannot be taken away from the municipal bond when in competition with the corporation bond.

The fact that if such a law is enacted federal government bonds also will be taxable by states, removes that competitive factor from the federal bond, which, at least, would place both on the same level.

With its tax-exempt privilege withdrawn the municipal bond would have to bear a higher yield for the investor in order to make it attractive. To that extent taxpayers, it is pointed out, would be much more careful before incurring indebtedness. This not only would reduce future bonded debts, thus relieving a growing tax burden, but would again make the municipal attractive to the investor.

By the same token, however, it would appear that the volume of municipals will be reduced. Further effect would be to slow up refunding operations because under higher rates of yield the objective of reduced cost to taxpayers in interest rates would be largely if not wholly removed by the higher rates at which non-tax-free bonds would have to be issued.

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Personally Speaking

The Don Greens entertained a group of visiting bond men and their wives at their summer home over the week-end.

Bond Club President Stanley Gates recently returned from an extensive Eastern trip.

Big things are expected of Bond Club Gov. George Everitt. He is spending the week-end on Wisconsin trout streams.

D. K. Searles, head municipal trader for Blyth & Co., Chicago, was in town Tuesday.

Bill MacFadden of Piper, Jaffray & Hopwood, snagged a 20-pound Northern pike on his latest fishing expedition. This is no mean trick with a fly rod.

Does anyone remember meeting a certain Colonel Boyd at the Bond Club outing?

"I guess I'll have to give up smoking," announced the husband. "The doctor says one lung is nearly gone." "Oh, Robert," exclaimed his wife, "couldn't you hold out just a little longer, until we get enough coupons for a new rug?"

Elk River Bank Observes 50th Anniversary

With a record of no closings, no reorganizations, of payment of dividends every year to its stockholders the Bank of Elk River (Minn.) on Tuesday of this week celebrated 50 continuous years of service to the city of Elk River and the adjoining farming community.

Open house was kept by the bank throughout the day in commemoration of its golden jubilee, a great birthday cake was cut, roses were presented the ladies and cigars, cigarets and refreshments to the men.

Many beautiful bouquets were received and banked about the lobby and on executives' desks. Telegrams of congratulation were sent by banks of the Twin Cities and elsewhere and visiting bankers were present from Monticello, Anoka, Osseo and the Twin Cities.

It was a great day for the bank, more than 500 people dropping in to extend their congratulations and good wishes for the future—many more than had been expected.

The Bank of Elk River was organized as a private institution in June, 1885, with W. L. Babcock, W. H. Houlton and Henry Castle as its founders . . . reincorporated in 1902 . . . joined Union Investment Co., 1905 . . . joined Northwest Bancorporation, 1929 . . . for 50 years has given Elk River safe, constructive banking service.

Present officers are: C. M. Babcock, president; J. H. Romdenne, vice president; Charles H. Bade, cashier, and H. M. Stanz and M. C. Tesch, assistant cashiers.

B. & L. DATES CHANGED

Change in the dates previously announced for its forty-third annual convention in Cincinnati is reported by the United States Building and Loan League. New dates, as given out by I. Friedlander, president of the League, are November 13, 14, and 15, exactly one week later than those formerly set.

ATTENDANCE RECORD

Following is the official attendance record—those actually registered—of the last twelve conventions of the Minnesota Bankers Association:

1935	Minneapolis	1462
1934	St. Paul	1173
1933	Minneapolis	1280
1932	St. Paul	1267
1931	Minneapolis	1252
1930	St. Paul	1301
1929	Minneapolis	975
1928	Breezy Point	468
1927	St. Paul	774
1926	Minneapolis	1345
1925	Duluth	639
1924	St. Paul	1099

Bright Prospects for Northwest

By JOHN F. NICHOLS, Secretary-treasurer, Minn. Realty Assn.

With a vigor that was delightful to behold the old-time pioneer spirit which built up the Northwest came to life at a special meeting of the Minneapolis Real Estate Board at which was entertained the board of directors of the Minnesota Realty Association this past week at the Athletic Club in Minneapolis.

Men from practically every district attended the session and, with some rapid-fire statements of crop and land sales' conditions in their respective areas, gave testimonials, undisputed prophecy of bumper crops and prosperity for the Northwest. Indeed they were so favorable that the only answer pessimists could give is, "It cannot be possible, for we have not yet reached the millennium or an Utopia era where everything is perfect. They are facts, however, which cannot be denied. There is a distinct rise in farm values and inquiries for lands are multiplying daily. Farmers are happy. Farm prices are mounting and weather conditions are ideal. Forecasts made by the monthly Cargill report shows a production forecast for winter wheat of 2,624,000 bushels as compared with 790,000 bushels last year. Rye is given as 90 per cent normal as compared with 35 per cent last year. Barley 88 per cent as compared with 44 per cent last year. Oats 89 per cent as compared with 44 per cent last year and thus goes the story of a crop situation in the Northwest.

A. J. Dexter, agricultural development agent for the Northern Pacific Railway, in the principle speech of the meeting was explicit in his statement that from all information which his company was able to assemble, the Northwest was headed for a period of its greatest prosperity.

Otto C. Neuman of Wheaton, president of the association was present and added in his talk to the optimistic outlook.

In addition to the members of the Minneapolis Real Estate Board the meeting was attended by Whitney Wall and Thomas W. Walker of Duluth; William D. Clapp, St. Paul; E. H. Lidberg, Red Wing; O. J. Kolb, New Ulm; R. H. Mathwick, Gaylord; A. C. Murray, Wadena, and P. B. Gaass, Crookston. R. C. Kaercher of Ortonville, a member of the board of directors, sent his sister, Grace Kaercher Davis, to attend the meeting in his place. L. W. Huntley of Grand Rapids also a member of the board of directors did not attend.

Sees Good Era on Way

"I believe that we may date real recovery from the instant that the supreme court reaffirmed the constitution in the NRA case," stated President Herbert K. Lindsley of the American Life Convention, president Farmers & Bankers Life Insurance Co., Wichita, Kan., in a public announcement just released.

"The reaffirmation of the constitution already has stirred true Americans very deeply," he said. "It is practically certain there will be a great battle in this country to amend the constitution, to 'bring it up to date,' as some would have us believe is necessary. But I believe the people of the United States will overwhelmingly vote down any radical revision of the constitution. I believe in the native common-sense of the people; that they will conclude that a statement of principles that has carried the country so far on the way onward and upward, cannot be far wrong."

In conclusion President Lindsley said everything indicates an era of great prosperity ahead; railroads have their shoulders to the wheel and with new facilities are winning back business; obsolescence in industrial equipment and furnishings of home offices, etc., offers a tremendous opportunity for re-employment, growing busines of life insurance companies indicates an improved economic situation.

Mother: "Now, Honeybunch, eat up your rice, like a good boy." Honeybunch: "I don't like rice." Mother: "Well, just pretend you like it." Honeybunch: "No, I'll just pretend to eat it."

Commercial West — the Northwest's business news magazine.

THE INSURANCE KEYHOLE

These halcyon (?) summer days are lending themselves, as nicely as they can it would seem, to annual meetings, outings and so on of insurance men. It certainly can't have been the weather, so it must have been the impulse of better times, greater optimism, or what have you, that has been getting out such good attendance.

For instance the Blue Goose, Minnesota Underwriters and State Fire Prevention men turned out one of the biggest attendances since the good old days of the late '20's at their combined outing and business meetings last week at Alexandria. Same, too, for the North Dakota Federation.

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Gets Two Plums

When it comes to popularity Ye Keyholer has to award the plum to George Duerr of Providence Washington Fire, Minneapolis. Not only was he elected president of the Minnesota Underwriters but the Blue Goose Pond turned right around and elected him most loyal gander of that group—meaning president. You sure have got to be pretty well known and liked to head two such great organizations of fire insurance men at one and the same time.

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What's in a Tag?

The tag Oscar Eastman of Northwestern Fire & Marine wore at the Minnesota Bankers Association convention last week had him branded as being with the Northwestern Fire & Range. Why they mistook Oscar for a cowboy is more than Ye Keyholer can fathom. But maybe they caught the fire part of the company's name and just naturally figured range was the thing to put after fire. Anyhow it didn't seem to bother Mr. Eastman much and he sure made a lot of friends for his firm.

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Not Bad, at All

Ward F. Senn of the Pioneer Agency, Minneapolis, is going to leave the job of hustling business entirely to his efficient staff for a few days soon. Reason: He's going fishing up north somewhere, probably at Al Schaefer's Camp on Big Winnibigoshish. This trip of Ward's is sort of a return engagement. It seems when the bass season opened in Iowa Mr. Senn was the guest down there of A. H. Hoffman, president; P. A. Stark, vice president, and George F. Wahl, secretary of the Yeoman's Mutual, Des Moines. Now that the season has opened in northern Minnesota these gentlemen are to be Mr. Senn's guests up north in this state. Mr. Senn, by the way, reports his May business 92 per cent ahead of that of May, 1934, which isn't at all bad Ye Old Keyholer would say.

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N. D. in Minnesota

The Insurance Federation of North Dakota held its annual meeting last Friday, Saturday and Sunday at Detroit Lakes in Minnesota, with President Charles A. Dawson of Fargo and Secretary O. J. Trimble of Devils Lake in charge of the program, ably assisted by various committeemen all of whom did a very fine job at the business session and the outing and entertainment preceding and concluding business affairs. President O. D. Hauschild of the Insurance Federation of Minnesota, accompanied by Secretary Clyde B. Helm and Secretary John T. Hutchinson of the Insurance Federation of America, drove up to the North Dakota meeting from Minneapolis, where Mr. Hauschild welcomed the North Dakotans and their convention to the state of Minnesota. Insurance Commissioner Harold Hopton of North Dakota, newly elected last fall, was chief speaker at the business session, outlining policies of his department, assuring the insurance business his cooperation and being assured he would receive the cooperation of the insurance business. There were about 40

WINNING ST. PAUL TEAM

Left to right: Theophil Rusterholz, Malcolm Cutting, Dorothy Goth

For the second time in three years a team representing St. Paul Chapter of the American Institute of Banking has won the national debate championship of the Institute.

In 1933 Miss Dorothy Goth and Theodore Maier of the First National Bank, with Theophil Rusterholz of the Farm Credit Administration as alternate, defeated the San Francisco team at the Chicago convention. On June 11 Miss Goth and Mr. Rusterholz with Malcolm Cutting of the First National Bank as alternate and coached by James S. Kean, defeated a team from Dallas, Texas, by a unanimous decison. The debate was held in Omaha in connection with the National Institute convention held in that city. The question was, "Resolved, That the United States should adopt a policy tending toward economic self-sufficiency."

In earning the right to participate in the debate at Omaha teams representing the St. Paul Chapter defeated Minneapolis, Duluth, Omaha, Kansas City and Chicago. A semi-final debate was held at Denver in which St. Paul defeated Fresno, Calif., representing the West Coast section. Fifteen members of the Chapter took part in the various preliminary debates.

A luncheon in honor of the team was held Monday noon, June 17, at the St. Paul Athletic Club.

insurance men at the meeting, most of whom brought their families. Arthur Powell, Devils Lake, was elected president for the ensuing year.

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Welcomes "Visiting Firemen"

Ye Keyholer claims that was a smart wisecrack the toastmaster made at the annual Blue Goose banquet during the gathering of the lads and their ladies of the fire insurance lines at Alexandria last week-end. And there is some question still in the minds of some of the lads as to whether it was impromptu genius, bright, bubbling humor or what a musician would call a grace note. Anyway, he started in by saying what a grand thing it was to be able to welcome so many "visiting firemen" to the annual meetings.

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The "Law" of Insurance

And talking about popular insurance men Ye Keyholer wishes to present Louis L. Law, state agent of London Assurance. When there's something doing in insurance you're apt to see Mr. Law acting in some official capacity or else on the speaking program. He pinch-hitted for President O. D. Hauschild of the Insurance Federation of Minnesota at the recent annual meeting, Mr. Hauschild being quite ill at the time, and did a darned good job of it. Latest new office handed him is that of delegate from the Minnesota Pond of the Blue Goose to the grand nest next August in Atlantic City.

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Fixing Things Up

Ye Keyholer had hoped this week to be able to pass out some more exclusive insurance news, namely, all about the next annual convention of the Association of Insurance Agents of Minnesota, but he has been asked to hold his peace for a few days. It seems Charlie Liscomb up Duluth way is fixing up a few tricks for what promises to be one of the swellest conventions the association has held in many a year. Suffice to say Hibbing's the place where the business sessions will be held and that the fun will be over at Lake Esquagamah, not far away.

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Management's Duty

"It is the duty of management to so conduct the affairs of its business that security is guaranteed to those employes who devote their lives to that business," said Arthur F. Hall, president Lincoln National Life Insurance Co., in the opening address of the lead-off business meeting of his company's thirtieth anniversary convention at Fort Wayne, Ind., this week. "You not only have a right to question your future with your organization," Mr. Hall told assembled salesmen, "but it is your duty to examine this question thoroughly. Your future security is of far greater importance to you and your dependents than is your rate of commission or earnings."

BUILDING AND LOAN

The 21st annual convention of the Minnesota League Building, Loan and Savings Associations, to be held in St. Cloud July 11, 12 and 13, is distinctive in that it will be a joint meeting with North and South Dakota, an experiment which may solve the question of convention meetings for other neighboring states.

Thursday, July 11, will be devoted to registration and a golf tournament at the St. Cloud Country Club. A sightseeing tour to the Minnesota State Reformatory for Boys will leave the hotel at 2:30 and will be a conducted tour, as entrance must be made before 3:00 o'clock. Two hours is required for this educational tour. Dinner will be at 6:30 at the St. Cloud Country Club. An informal get-acquainted meeting will conclude the evening, also a group meeting of the Federal Savings and Loan Associations will be held Thursday evening.

Sessions will be held in the court room of the beautiful Stearns county court house and will begin promptly at 9:00 o'clock Friday morning.

Robert J. Richardson, president of the Federal Home Loan Bank of Des Moines will bring a message from that institution following the address of welcome by Phil H. Collignon, mayor of St. Cloud. Responses will be made by representatives of Minnesota, North and South Dakota.

John R. B. Byers, director mortgage insurance, also director of savings, building and loan relations of the Federal Housing Administration, Washington, D. C., will address the group Friday morning on "Why Building and Loan Associations Should Make Insured Mortgage Loans Under Title II." Miss Margaret Opperud, secretary of the Madison Building and Loan Association of Madison, S. D., will speak on "Valuations." C. A. Williams, executive vice president of the Fargo Building and Loan Association will lead a discussion on "Nuts to Crack, But How?" A questionnaire has been mailed to every association in the three states regardless of league affiliation and from the prompt return of these questionnaires, much interest will be manifested in this particular subject.

For the visiting ladies a luncheon has been arranged by Mrs. James J. Quigley, assisted by Mrs. Elizabeth Crary Donath, Mrs. Ed A. Murphy, Mrs. James H. Murphy, Mrs. A. A. Lagergren and Mrs. Fred C. Lindt.

One of the famous fish frys at Lee's Log Lodge on Sauk River will be a feature for the delegates Friday noon.

A. D. Theobald, director of research American Institute Building, Loan and Savings Association, Chicago, will be a speaker at the afternoon session Friday.

J. M. Rountree, general manager Federal Savings and Loan Associations, Washington, D. C., has been invited. Angus Grant, assistant to Mr. Rountree, will attend the convention. Mr. Grant was formerly associated with the Duluth Home Building and Loan Association, but for the past year has been in Washington.

Ted W. Atkins, field director United States Building and Loan League, Chicago, will speak on "League Membership and the National Publicity Program."

O. J. Jerde, St. Cloud State Teachers' College, will be one of the Friday speakers. Mr. Jerde's appearance on the program assures a discussion of real interest.

W. R. Youngquist, state representative of Minneapolis, will speak on "Taxation."

"Performable Promises" is the subject upon which Ralph W. Manuel, First Federal Savings and Loan Association of Minneapolis will speak.

The annual banquet will be held Friday evening at the Breen Hotel, preceded by a concert at 6:30 given by the St. Cloud Boys' Band, under the direction of G. Oliver Riggs, bandmaster. Ed A. Murphy, president of the Security Building and Loan Association, St. Cloud, will preside as toastmaster.

Morton Bodfish, executive vice president United States Building ad Loan League, Chicago, is invited to be the speaker at the banquet. James J. Quigley, chairman of the board of directors, Security Building and Loan Association, St. Cloud, and John F. Scott, president Minnesota Building and Loan Association, St. Paul, former St. Cloudite, will also speak at this evening session. Entertainment features are planned and the evening will be concluded with dancing.

The Saturday morning sessions will conclude the meeting, individual meetings of the three states being arranged for these business sessions, when reports will be made by the committee chairmen, followed by the election of officers and delegate to the national convention which will be held in Cincinnati November 13, 14 and 15.

For those who did not make the tour on Thursday afternoon to the Minnesota State Reformatory, a trip can be arranged for Saturday morning.

The second largest granite quarries in the world are located in St. Cloud. The United States Veteran's Hospital is one of the interesting places for visitors to the city. A Sky Circus June 29 and 30 will dedicate the new Air Port of St. Cloud, known as the Whitney Memorial Air Port. St. Cloud is a beautiful little city located in the center of the state and divided by the Mississippi river.

Mrs. D. Eliza Crary of St. Cloud, general secretary for the convention, who is also secretary of the Minnesota League, in a letter to Commercial West, furnishing the foregoing information of the convention program, says:

"Reservations are coming in daily and this convention now promises to be one of the best we have ever held. I hope visitors to the convention will be able to remain over for a few days to see some of the beautiful and interesting spots in and around St. Cloud. The immediate vicinity boasts of many lakes and excellent fishing."

MANY BUILDING AND LOAN ASSNS. 50 YEARS OLD

Three hundred savings, building and loan associations which are members of the United States Building and Loan League will have completed their fiftieth anniversary by July 1 this year, it is reported by the League. Scattered through 30 different states these half-century old home-financing institutions now have assets of $503,650,000, reports H. F. Cellarius, secretary-treasurer of the League.

DECLARES EXTRA DIVIDEND

Minnesota Mining & Manufacturing Co., St. Paul, has declared an extra dividend of 2½ cents and regular quarterly dividend of 15 cents, both payable July 3.

Processing Tax on Flax Lost

Recent advices from Washington indicate that the duplicate bills to levy processing taxes on flaxseed and compensatory taxes on competitive drying oils have been pigeonholed for this session of Congress. With the present mass of legislation pending, carrying the President's "must" orders, there appears to be little hope for the passage of the flaxseed processing tax bills.

Shipments of flaxseed from Argentina last week totaled 677,000 bushels, of which 71,000 are destined to the U. S. A. This brings the total exports from Argentina so far this year up to 42,100,000 bushels, says the Archer-Daniels-Midland Co., compared with 33,100,000 during the same period in 1934. In other words, excellent marketing by the Argentine has kept the price within about 5 cents a bushel range since the first of the year, and they have been able to dispose of 10,000,000 more bushels of flaxseed than in the past two seasons by this date. Argentine weather continues only moderately good, and there is still no indication that the dry weather has broken in the flax growing area. Broomhall advises that the northern part will require general rains very soon.

Linseed oil shipments continue to be quite good. Linseed cake prices for export are about 50 cents a ton lower, and domestic meal prices anywhere from $1 to $2 a ton below recent quotations.

The Bank Lobby

(Continued from page 59)

Just Got Under Wire

A. A. (Doc) Barton, vice president of the American National at Little Falls, just got under the wire for the M. B. A. convention smoker last week. That's unusual as "Doc" generally is on hand early. "Just couldn't get away sooner," said Mr. Barton to Commercial West. "Too much business these days . . . didn't even have time to get shaved . . . closed the bank, jumped a bus and here I am . . . hope I haven't missed too much."

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Most Spectacular Shot

Vice Pres. F. G. Stoudt of Chatfield's First National is sure a good sport, and he laughed as heartily as anyone else when Chairman W. R. Murray, Midland National, Minneapolis, announced him winner of the most spectacular shot at the M. B. A. convention golf tournament. It came right on the heels, too, of Mr. Murray's presentation to Mr. Stoudt of the prize for the high net score. "That was the most sensational shot ever seen anywhere," said Mr. Murray. "It bounced off four trees and almost rolled in the cup."

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Visit in East

Pres. B. F. Kauffman of the Bankers Trust Co., Des Moines, returned home last week from a trip to Washington and New York. While in the East Mr. Kauffman, with Pres. Herbert L. Horton of the Iowa-Des Moines National Bank & Trust Co., attended the convention in Vermont of the Association of Reserve City Bankers.

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That N. D. Spirit

President E. C. Cunningham, First & Commercial National Bank, Williston, who knows northwestern North Dakota better than any other one man living in that section, says: "Give us this crop this year and a couple more years of good returns and we'll forget all the bad years we've had. Both crops and livestock are on the way back."

North Dakota Bank News

North Dakota's Secretary of State has issued certificates increasing capital from $10,000 to $15,000 and renewing term of corporate existence for 25 years to the following banks: Farmers State, Bentley; Reservation State, Makoti, and Pioneer State, Towner.

J. W. Scott has been elected second vice president of the First State of Gilby and also director to succeed Nora C. Fadden.

Alfred H. Bakken has again accepted assistant cashiership of the State Bank of Heimdal.

Certificates renewing term of corporate existence for 25 years have been issued by the Secretary of State of North Dakota to: Farmers State, Mooreton; Bank of Rhame; First International, Watford.

Grain Price Range

	June 19	June 26
WHEAT—		
July	$0.91⅛	$0.92¼
Sept.	.82⅜	.82⅞
Dec.	.82¼	.83⅛
OATS—		
July	.33⅛	.35
Sept.	.30½	.32
Dec.	....	....
RYE—		
July	.44⅛	.44
Sept.	.45⅛	.45⅜
Dec.	....	....
BARLEY—		
July	.41⅞	.43¾
Sept.	.40¼	.42
Dec.	....	....
FLAXSEED—		
July	1.54	.153¾
Sept.	1.53	1.53¾
Dec.	....	1.55

Temporary Fund Extended

After much ado about new forms for deposit insurance, bankers worrying over the fear temporary insurance be automatically changed to the permanent form on July 1, the Senate on Tuesday adopted a resolution extending the temporary form for one year. Thursday afternoon the House committee voted to extend it 60 days. The resolution had to go to conference to adjust the time difference, but there was scarcely a question, as Commercial West went to press, but what the resolution would be approved by both houses and signed by the President before July 1.

Rastus: "Brothaw president, we needs a cuspidor." President of the Eight-Ball Club: "I appoints Brother Brown as cuspidor."

BUSINESS WANT DEPARTMENT

SERVICE COMPANIES

ALL KINDS OF SIGN WORK expertly done. From the smallest window card to the largest billboard, we will cooperate and give you fair estimates. Window lettering a specialty. Call or write JOHN GEMLO SIGN CO., 12 North 12th St., Minneapolis, Phone Ge. 0227.

RE-UPHOLSTERING OR REFINISHING furniture for the home or office our specialty. One piece or suite at prices that merit your consideration. Will deliver free anywhere in the Twin Cities. Write or phone A C FURNITURE CO., 3705 Nicollet Ave., Minneapolis, Phone Re. 7865.

LET HARFF PAINT 'EM—AUTO PAINTING that has won the approval of hundreds of automobile owners. Our satisfied customers our best ad. We want more of them. Estimates will be cheerfully given. L. H. Harff, 15 North 12th St. Phone Main 4896.

TRUCK OWNER has one truck—capacity 3½ ton—available for long or local hauling. Would like to make connection with Minneapolis or St. Paul industry shipping to any part of Minnesota. Address HENRY POTHEN, 406 E. 18th Street, Minneapolis. Phone: Bridgeport 4442.

BANK INTEREST WANTED

Experienced banker wishes to buy an active interest in country bank. Address Box 541, care Commercial West.

Canadian banker, 25 years' experience, fourteen years as successful branch manager, wants to buy small interest or controlling stock in American bank. Full particulars as to size of town, living conditions, etc. References exchanged. Box 548, Commercial West.

BANK FOR SALE

CONTROL AVAILABLE in a modern and up-to-date Minnesota point of 5,000 population. Bank in excellent shape—making money—best of reasons for wishing to sell. For confidential data communicate with Box 546, care Commercial West.

HELP WANTED

Cashier wanted. Good small bank south central Minnesota with working control. $2,000 will handle. Box 554, care Commercial West.

INVESTMENT DEALER wants experienced bond salesman for territory representation, preferably Southern Minnesota. Address Box 552, care Commercial West.

You Will Be Heard At 4 Cents a Word

Rates for advertisements in this department are 4 cents per word each insertion. Words displayed in Capitals 8 cents per word. Initials, name, address, location and abbreviations count as one word each. Copy paragraphed, 28 cents per line. **Check or postage stamps must accompany all orders.** All answers to advertisements under key numbers must be accompanied by a three-cent stamp.

COMMERCIAL WEST
Rand Tower Minneapolis

MISCELLANEOUS

General Merchandise Store, town of four hundred, located in southwestern Minnesota, in good farming district which has not known a poor year for some time past. Reason for selling, wish to retire. Address Box 551, care Commercial West.

SITUATIONS WANTED

Cashiership wanted, good country bank, by banker of 20 years experience. Good references. Now employed. Make moderate investment. Box 558, care Commercial West.

Position wanted by young man, desiring work in country bank—University education but no experience. Address Box 557, care Commercial West.

Position as assistant cashier—ten years banking experience. References. Can invest. Address Box 555, care Commercial West.

Assistant cashiership or cashiership wanted by experienced young banker. Can invest. Address Box 549, care Commercial West.

FARM LANDS WANTED

Timber land wanted. Second growth preferred not more than one hundred miles from Minneapolis. Will buy either land or take timber—optional. Box 177, care of Commercial West.

Wanted: N. D. or S. D. farm—all improved—a farm that one can realize a return on a substantial investment. Property must be clear—Torrens Title preferred. Box 179, care of Commercial West.

Wanted: Hay land. Will rent or lease reasonable land in any part of North Dakota (would prefer Red River Valley) for the raising of hay. Write Box 180, care of Commercial West.

FARM LAND FOR SALE

DOUGLAS COUNTY FARM. 500 acres near Brandon. Here's a farm that is a real investment. Best soil in Douglas County. All equipped. 8 room house, 2 baths, hot water heat, ultra modern in every respect. All out buildings good as new. Priced to sell at $75 per acre. Box 176, c/o Commercial West.

FURNITURE AND FIXTURES

If you are contemplating going into the banking business we have a complete set of fixtures for sale very cheap. These fixtures include vault door, burglar alarm, marble fixtures with all equipment. Write Box 108, care Commercial West.

Several nests of Mosler and Diebold Safe deposit boxes at one dollar per opening. One Brandt money changer $45.00. One Burroughs commercial posting machine, cost $1,325.00, sell for $225.00. C. A. Doyle, 108 Midelfart Clinic Buildng, Eau Claire, Wis.

Left hand, Marble Fixtures and two Vault Doors for sale. Must sell at once. Address Box 553, care Commercial West.

INVESTMENTS

Controlling interest in bank located in southern Minnesota town. Excellent condition. Money maker. Has paid dividends last 4 years. Takes about $11,000 to handle. W. R. Olson Company, Fergus Falls, Minnesota.

Our client, an experienced country banker, is interested in purchasing stock in a sound bank in a town of 1,000 population or more, where he can assume an executive position. W. R. Olson Company, Fergus Falls, Minnesota.

PURE OIL REPORT

Pure Oil Co. is reported planning to sell 32,000,000 notes to refund $27,500,000 outstanding and to obtain additional working capital. President Dawes stated net earnings first four months of 1935 were about $1,700,000 after all charges. Company reported net loss of $884,872 in 1934.

WORLD WHEAT CROP

World wheat crop will be 5 per cent or 165,000,000 bushels greater this year than last, the Department of Agriculture reports. This increase will only partly offset a reduction of world stock of 295,000,000 bushels on July 1 so the net change in supplies for the 1935-36 crop year will be a reduction of 3 per cent or 130,000,000 bushels.

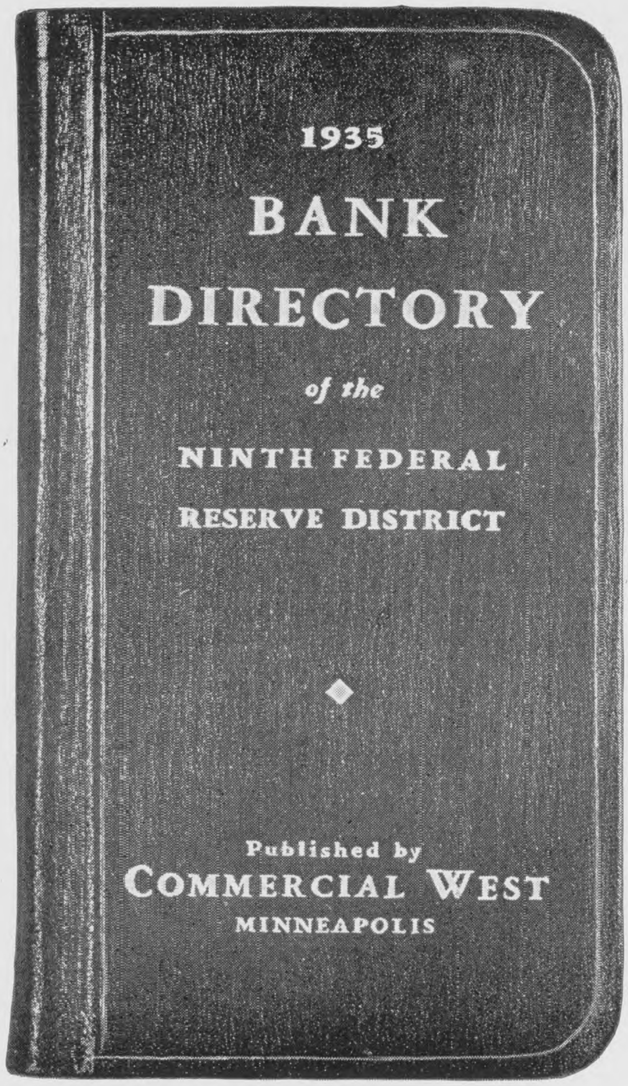
USED CAR SALES

A reduction in stocks of used cars during the month ended June 10 is indicated by a National Automobile Dealers' Association Survey. Returns from 220 dealers situated throughout the country showed that combined stocks in these establishments on June 10 were 7,000 used cars and 900 used trucks compared with 7,838 cars and 896 trucks in the 30 days previous. Sales during the 30 day period were 8,076 cars and 444 trucks.

NEW CELOTEX PROGRAM

Celotex Co. for six months ended April 30, shows net loss $88,510 after all charges against $197,669 in like period a year ago. By changes announced in proposed reorganization plan, preferred stockholders will receive one share of new preferred and one share of new common for each two shares of old preferred as against only one share of new preferred under original plan. Common will receive one share of new common for each three old shares held against one share for four under the former plan.

Commercial West is exclusive in the Northwest as a business paper.



Actual Size in Genuine Leather Binding

★

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